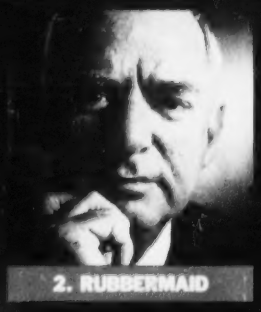
THE JAPAN PROBLEM • DRIVE TO DUMP DEBT • A NEW BABY BOOM

FEBRUARY 10, 1992 $3.95

FORTUNE

AMERICA'S MOST ADMIRED CORPORATIONS

1. MERCK


2. RUBBERMAID

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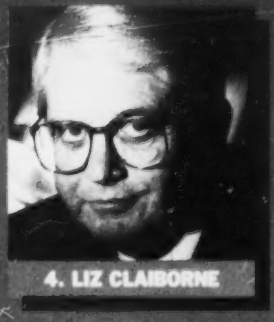
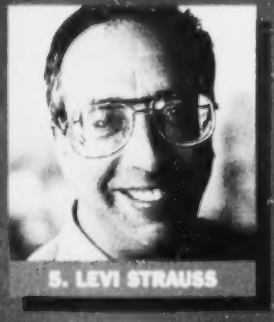
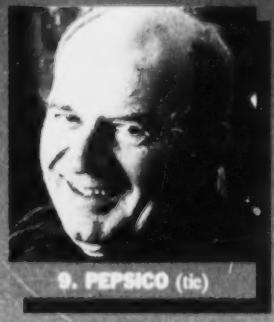

4. LIZ CLAIBORNE

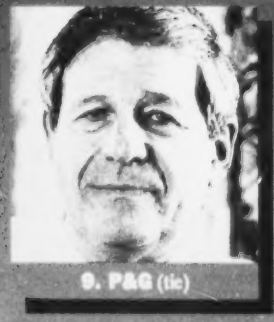

5. LEVI STRAUSS

6. JOHNSON & JOHNSON

7. COCA-COLA

8. 3M


9. PEPSICO (tie)


9. P&G (tie)

How 307 Companies Rank

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FORTUNE

"The only sustainable competitive advantage any business has is its reputation."

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JAPAN

WHAT NOW FOR THE U.S. AND JAPAN 80

George Bush and his pack of CEOs pressed managed trade on the Japanese, but much more is needed to create jobs and boost exports. As the international competitors confronted each other in Tokyo, the outlook for achieving unfettered markets looked grimmer than ever. Avoiding a trade war is the next step. *by Allan T. Demaree*

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American and Japanese CEOs knock heads.

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Heck, no. We had one of those already. But Republican challenger Patrick Buchanan, whose America First message plays well among the recession-weary, is making Big Trouble for Big George. The former Nixon speech writer outlines his positions in an interview with FORTUNE.

ABOVE: CEO Richard Teerlink of Harley-Davidson on one of his products, photographed by Chris Sanders.

COVER:
(1: ROY VAGELOS. 2: WALTER WILLIAMS. 3: DAVID GLASS. 5: ROBERT HAAS. PHOTOGRAPHED BY CHRIS SANDERS. 4: JEROME CHAZEN. 9: WAYNE CALLOWAY OF PEPSICO. BY THEO WESTENBERGER —GAMMA/LIAISON. 6: RALPH LARSEN. 7: ROBERTO GOIZUETA. 9: EDWIN ARTZT OF P&G. BY LOUIS PSIHOYOS—MATRIX. 8: L. D. DESIMONE. COURTESY OF 3M

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In our tenth annual survey, Merck remains dug in at No. 1, and Levi Strauss joins the top ten. The big winner is RJR Nabisco—up 29% as a result of paring debt, going public, and turning a profit. *by Kate Ballen*

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The benefits are substantial for companies large and small. You can attract talented workers, market products more efficiently, and keep customers loyal. *by Susan Caminiti*

"In my generation we had the phrase 'saving for a rainy day.' This generation believed it wouldn't rain again."

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"If the market continues its current boom, I think in the short run we're setting up for a real speculative bust."

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"If he's a car salesman, he's in pretty damn good company."

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"I think the President should be a blocking back for American business, and play hardball with Japan."

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"In the past, what sold was the cheapest product. Now the people want quality, warranties, and local service."

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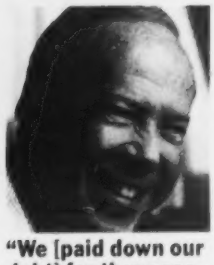

"We [paid down our debt] for three reasons: cash flow, cash flow, and cash flow."

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THE BABY BOOMLET IS FOR REAL 101

The trend started with women beating the biological clock, but it won't stop with them. More young women are dropping out of full-time work to start families. *by Joseph Spiers*

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A new Swiss watch that incorporates an astrolabe to let you keep track of heavenly bodies, a microwave teakettle with a whistle for high-tech chefs, AT&T's new VideoPhone, which finally lets you see who's calling, and more. *by Alison L. Sprout*

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Moving on an air cushion six feet above water, a weird Russian plane rides the waves faster and with greater fuel efficiency than a ship with the same cargo. *by Gene Bylinsky*

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With credit tight and bond ratings in the tank, companies are pursuing new strategies to deleverage. But good luck selling assets—unless an overseas buyer turns up. *by Anne B. Fisher*

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EDITOR'S DESK

KEN KATSUMOTO/AP/WIDE WORLD

Demaree in Tokyo with former Commerce Secretary Mosbacher and Bronce Henderson, chairman of Detroit's DCT Companies

IF YOU thought you knew all about President Bush's Asian odyssey with U.S. chief executives, read "What Now for the U.S. and Japan" (page 80). We think you'll find it the Technicolor movie to the black and white snapshots you've seen so far. More than just reporting, the story analyzes the deeper issues. For example, it not only details what the American CEOs charged about Japanese trade barriers, but it also examines what those barriers really are and how much they hurt U.S. companies. And it looks toward the future: How will the Japanese honor the new trade agreements, and what exactly will that do for U.S. corporations and jobs?

GARTH VAUGHN

Associate Editor Kate Ballen

Behind the extraordinary tale stands an extraordinary teller, executive editor Allan T. Demaree, who pursued the story with enthusiastic curiosity coupled with the experienced judgment of one of the best editors in the business. He had remarkable access, interviewing the chief executives not only of Detroit's Big Three but also of Toyota and Honda and ranking Japanese and U.S. government officials as well. Just saying that he was a FORTUNE editor, and one traveling with the presidential party, opened many doors in Japan. Demaree found doing the story, above all, *fun*: fun for the editor to be a reporter again, fun to travel on one of the presidential 747s, to sit in on high-level meetings as one of the four U.S. journalists allowed to do so. He also bore witness to Bush's historic move to put the prestige of the Presidency behind the international success of American business.

Compiled by Associate Editor Kate Ballen from over 8,000 questionnaires sent to company officers, directors, and Wall Street analysts, FORTUNE's annual Survey of Corporate Reputations (page 40), celebrates its tenth anniversary this year. In its decade of existence, the survey has created—as you, our readers, tell us—FORTUNE's most prestigious club. And as Associate Editor Susan Caminiti reports (page 74), membership in that club satisfies more than a company's vanity. A sterling reputation makes it easier to find opportunities abroad; it attracts good employees; it often commands a premium price for a company's products. *That's* getting respect.

Marshall Loeb

MANAGING EDITOR

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event. Hoping to forestall any further Japan-bashing, the Japanese kept a low profile and displayed far fewer new models than they did at Tokyo's October motor show. **Honda Motor** held back the introduction of its new Civic-based sports car, a racy two-seater. **Mazda** unveiled the MX-6 coupe, which will be built in the company's Flat Rock, Michigan, plant. **Nissan** presented the Quest minivan, which Ford will assemble in Avon Lake, Ohio. **Toyota** showed only one new model, the Camry SE sports coupe being made in Georgetown, Kentucky. Its base price: $17,000.

Absent the usual glitz and glamour, it was left to Chrysler to provide the show's biggest hits. After failing for more than a decade to develop an all-new car model, it unveiled four: the 1993 Dodge Viper RT/10, a $50,000 two-seat roadster, and three of its 1993-model midsize cars, to be named Dodge Intrepid, Eagle Vision, and Chrysler New Yorker. The cars, which will cost $15,000 to $30,000, were developed in 39 months, a record for a U.S. automaker. Production starts this summer at Chrysler's plant in Bramalea, Ontario.

Chrysler also produced the show's publicity coup: President Robert Lutz, 59, introduced the all-new Jeep Grand Cherokee station wagon by driving it through a plate-glass window. Dealers get these bigger Cherokees in April. Price: up to $25,000. **– Alex Taylor III**

MORE BUSINESS CLASS IN U.S.

■ **AMR**'s American Airlines has hatched a plan to make more money by carrying fewer passengers per plane on its nine profitable daily flights between New York and Los Angeles. Starting February 4, the carrier will import a proven profit producer from its international service—business class. American has refurbished the planes it will use by ripping out one row of first-class seats and 12 rows of coach seats to create a new cabin. This will cut full capacity on a DC-10 from 290 seats to 237. In addition to more room, separate check-in, and priority baggage pickup, business-class fliers will have what the company calls "an exclusive lavatory." One-way price: $998, compared with $752 for a full-fare coach seat and $1,325 for first.

The airline figures it can sell more of those first-class seats if they aren't filled with frequent fliers upgrading from coach. Instead, upgrades will now go to business class.

TWA already has a business class for domestic flights. But the carrier's strategy flies in the opposite direction from American's: TWA is discounting business-class fares on flights between some 60 U.S. cities. **UAL**'s United and **Delta Air Lines** have some domestic business-class seats, but most are on domestic legs of international flights.

There'll be fewer discount fares in all classes this year. The carriers took a drubbing in 1991, leading American's Chief Executive Robert Crandall to observe, "The best thing you can say about last year is that it's over." **– Wilton Woods**

American Airlines CEO Robert Crandall

DANNY TURNER

BIGGEST CORPORATE LOSERS—SO FAR

Company	Year	Loss in billions
1. Texaco	1987	$4.4
2. LTV	1986	$3.3
3. LTV	1988	$3.2
4. IBM	1991	$2.8
5. Continental Airlines Holdings	1990	$2.3
6. Philips N.V.	1990	$2.3
7. Schlumberger*	1986	$2.0
8. General Motors	1990	$2.0
9. USX	1986	$1.8
10. Chrysler	1980	$1.7
11. Occidental Petroleum	1990	$1.7
12. AT&T	1988	$1.7

*Netherlands Antilles oil field services company

MARIA KEHAYAN FOR FORTUNE

GM TO BE TOPS?

■ When **General Motors**' 1991 results come in, the company may win the questionable distinction of having run up the biggest annual loss ever by a shareholder-owned company. GM is expected to post a 1991 loss of $3 billion. Write-offs from announced plant closings could push that to $5 billion. **IBM**'s $2.8 billion 1991 loss reflects restructuring charges and a dismal year for sales.

U.S. companies dominate the list of record losers. Of those shown above, only two are foreign: **Philips**, the Dutch electronics giant, and **Schlumberger**, an oil field services company that is headquartered in New York but incorporated in the Netherlands Antilles. But if nationalized companies were included, GM would look a tad better. In 1990, not-yet-privatized **British Coal** dug an $8.2 billion hole, and the German **Bundesbahn** rail system marked up more than $3 billion in losses. And those companies at least have honest management. Under a corrupt military dictatorship in the early 1980s, Argentina's **YPF**—an oil monopoly that ran everything from production facilities to service stations—lost $12 billion in just three years. Neither the banks that loaned YPF billions nor the civilian government now stuck with trying to privatize the outfit can prove where all the money went. **– W.W.**

HELP WANTED: FORENSIC CPAs

■ Tom Taylor used to pack a .357 magnum; now he pushes a pencil. Taylor, 37, for two years an FBI agent, is a forensic accountant, somebody who sniffs through company books to ferret out white-collar crime.

Demand for this service has surged in the past few years. At

needs for the use of animals in various fields, we oppose practices that cause animals *needless* suffering and death.

DENNIS J. WHITE
Director, Animal Protection Division
American Humane Association
Englewood, Colorado

START A REVOLUTION

The underlying message in "Gay in Corporate America" (December 16) was that negative attitudes toward gays will change only when more of us are willing to stand up and proclaim who we really are. Unlike ethnic minorities, gays have a choice about whether to be visible in the workplace. When a straight colleague discovers that the fellow in the next office or the woman who happens to be his boss is "one of them," there is usually a revolution in his beliefs about gay people. Coming out of the closet is our single most powerful weapon in fighting prejudice and homophobia.

ROBERT RISTELHUEBER
Santa Clara, California

ENGINE DESIGN SET STRAIGHT

"A U.S.-Style Shakeup at Honda" (December 30) was excellent and informative, but it is incorrect in saying that Honda set a design standard when in 1972 it put the engine in sideways in small cars to create more room for passengers. British Motor Corp. (now Austin Rover Group) introduced such a design in 1959 in its Morris Mini Motor, a minuscule cult car still in production in Birmingham in Britain.

J. B. HENRIQUES JR.
Chantilly, Virginia

OFF THE BEAM

Your Companies to Watch article on Sunrise Technologies (December 30) implies that Sunrise owns the patents to a new laser it developed that is used in dentistry. In fact, American Dental Laser owns all patent rights and has granted Sunrise the right to manufacture this laser.

DANIEL S. GOLDSMITH
President and CEO
American Dental Laser
Troy, Michigan

CORRECTION

In "The Best & Worst Stocks of 1991" (January 27), we failed to show a 64-cent dividend paid by Ameritrust, and Comnet was incorrectly listed as having paid a dividend in 1991. FORTUNE *regrets the errors.*

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AMERICA'S MOST ADMIRED CORPORATIONS

Merck has dug in at No. 1, and Levi Strauss joins the top ten. The big winner is RJR Nabisco—up 29% as a result of paring debt, going public, and turning a profit. ■ *by Kate Ballen*

TAKE IT from the folks who should know: A golden reputation requires a lot of burnishing. Over the ten-year life of FORTUNE's annual survey of corporate reputations, the most lauded companies have worked their way to the top with excellent management, high-quality products, and superior financial performance. Then they sweat to stay there. Says Ralph Larsen, CEO of Johnson & Johnson, No. 6 this year: "Reputations reflect behavior you exhibit day in and day out through a hundred small things. The way you manage your reputation is by always thinking and trying to do the right thing every day."

The top ten is an elite club, with just 30 corporate members over the decade. Though the roster changes annually, Merck has made the cut every year. Next in line are 3M and Rubbermaid, each with seven years under its belt. Coca-Cola is a repeat performer for six. The newest recruit is Levi Strauss, which shows up in the inner circle for the first time this year.

No company has won greater recognition for tending its good name than Merck. For the sixth straight year this wonder drug of a pharmaceutical giant has earned the highest rating among 307 major companies. Not only that: In 1991 the company racked up its best overall score ever. Rated on a scale of zero to ten in eight categories, Merck ranked first in seven measures and averaged a dizzying 9.02, the highest score of any company in the ten years of the survey.

Others of the Big Ten also have plenty to crow about. Despite a recession that has turned free-spending Americans into terrified tightwads, all of the most admired make consumer products. Levi Strauss, with record earnings and sales this past year, became the first private company to reach the top ten, vaulting 15 places to No. 5. Another pillar of the rag trade, Liz Claiborne, jumped to No. 4 from No. 10 last year, and Wal-Mart, having finally surpassed Sears Roebuck as the nation's largest retailer, popped up a notch to No. 3. Johnson & Johnson rose two places to No. 6, its highest level since 1984.

Second-place finisher Rubbermaid kept its bounce despite the end of Stanley Gault's 11-year reign as CEO in May. Says Walter Williams, Gault's carefully chosen successor: "We worked very hard to make sure the outside world knew about the change. We spent a lot of time talking to the financial community to make sure no one had any questions. The transition from Gault to Walt will go down as one of the smoothest CEO changes ever."

If you hang around where the air is rare, you have to expect a few nosebleeds. Procter & Gamble tumbled six notches to No. 9 as the recession washed some earnings away. A little of PepsiCo's fizz went flat, and the company fell from No. 5 to tie for No. 9. Its Frito-Lay unit eliminated 1,800 jobs and took a $91.4 million charge against pretax earnings in the third quarter. Three quarters of earnings declines, the first since 1985, also helped push 3M from No. 6 to No. 8 this year, which was no way to welcome L. D. DeSimone,

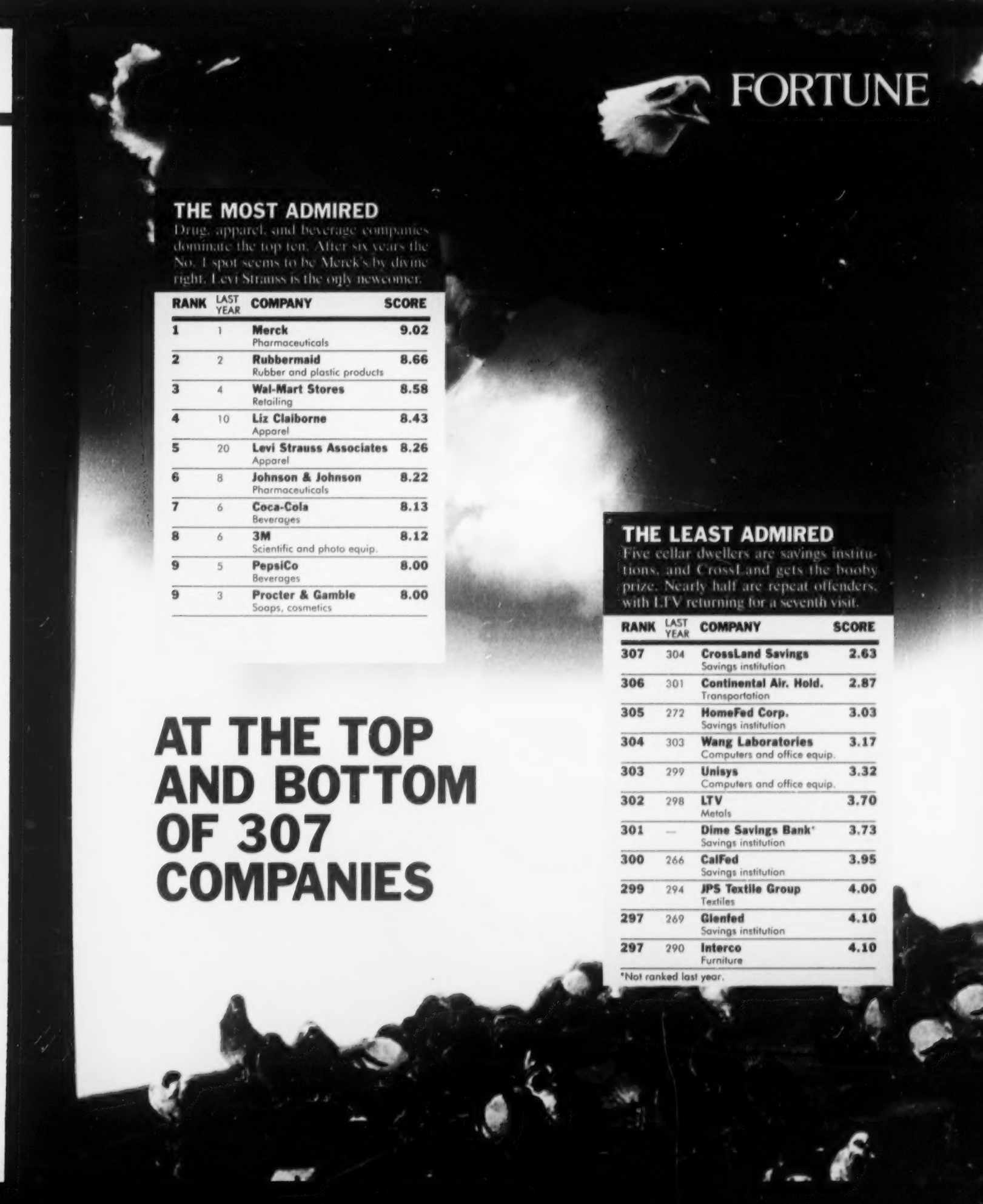
REPORTER ASSOCIATE *Laurie Kretchmar*

HOW IT WAS DONE

■ The tenth annual Corporate Reputations Survey includes 307 companies in 32 industry groups that appeared in the 1991 FORTUNE 500 and FORTUNE Service 500 directories. More than 8,000 senior executives, outside directors, and financial analysts were asked to rate the ten largest companies in their own industry (or sometimes a shorter list) on eight attributes of reputation, using a scale of zero (poor) to ten (excellent). The attributes were quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop, and keep talented people; responsibility to the community and the environment; and wise use of corporate assets.

FORTUNE 500 companies are assigned to a group based on the activity that contributed most to their 1990 industrial sales; Service 500 companies to a group based on the activity contributing most to their service sales. All companies made public filings of key financial information.

ELECTRONICALLY IMAGED COMPOSITES BY LINDA ECKSTEIN



THE MOST ADMIRED

Drug, apparel, and beverage companies dominate the top ten. After six years the No. 1 spot seems to be Merck's by divine right. Levi Strauss is the only newcomer.

RANK	LAST YEAR	COMPANY	SCORE
1	1	**Merck** Pharmaceuticals	9.02
2	2	**Rubbermaid** Rubber and plastic products	8.66
3	4	**Wal-Mart Stores** Retailing	8.58
4	10	**Liz Claiborne** Apparel	8.43
5	20	**Levi Strauss Associates** Apparel	8.26
6	8	**Johnson & Johnson** Pharmaceuticals	8.22
7	6	**Coca-Cola** Beverages	8.13
8	6	**3M** Scientific and photo equip.	8.12
9	5	**PepsiCo** Beverages	8.00
9	3	**Procter & Gamble** Soaps, cosmetics	8.00

AT THE TOP AND BOTTOM OF 307 COMPANIES

THE LEAST ADMIRED

Five cellar dwellers are savings institutions, and CrossLand gets the booby prize. Nearly half are repeat offenders, with LTV returning for a seventh visit.

RANK	LAST YEAR	COMPANY	SCORE
307	304	**CrossLand Savings** Savings institution	2.63
306	301	**Continental Air. Hold.** Transportation	2.87
305	272	**HomeFed Corp.** Savings institution	3.03
304	303	**Wang Laboratories** Computers and office equip.	3.17
303	299	**Unisys** Computers and office equip.	3.32
302	298	**LTV** Metals	3.70
301	—	**Dime Savings Bank*** Savings institution	3.73
300	266	**CalFed** Savings institution	3.95
299	294	**JPS Textile Group** Textiles	4.00
297	269	**Glenfed** Savings institution	4.10
297	290	**Interco** Furniture	4.10

*Not ranked last year.

QUALITY OF MANAGEMENT	
MOST ADMIRED	SCORE
Wal-Mart Stores	9.27
Rubbermaid	9.22
Merck	9.19
LEAST ADMIRED	**SCORE**
CrossLand Savings	2.88
HomeFed	3.23
Continental Airlines/Salomon	3.25

FINANCIAL SOUNDNESS	
MOST ADMIRED	SCORE
Merck	9.43
Wal-Mart Stores	9.00
Coca-Cola	8.91
LEAST ADMIRED	**SCORE**
Continental Airlines Hold.	1.22
CrossLand Savings	1.50
HomeFed	1.74

QUALITY OF PRODUCTS OR SERVICES	
MOST ADMIRED	SCORE
Merck	9.26
Rubbermaid	8.97
Procter & Gamble	8.81
LEAST ADMIRED	**SCORE**
Wang Laboratories	3.99
CrossLand Savings	4.07
Continental Airlines Hold.	4.16

ABILITY TO ATTRACT, DEVELOP, AND KEEP TALENTED PEOPLE	
MOST ADMIRED	SCOR
Merck	9.0
Wal-Mart Stores	8.6
Liz Claiborne	8.3
LEAST ADMIRED	**SCOR**
CrossLand Savings	2.2
Continental Airlines Hold.	2.5
Wang Laboratories	2.7

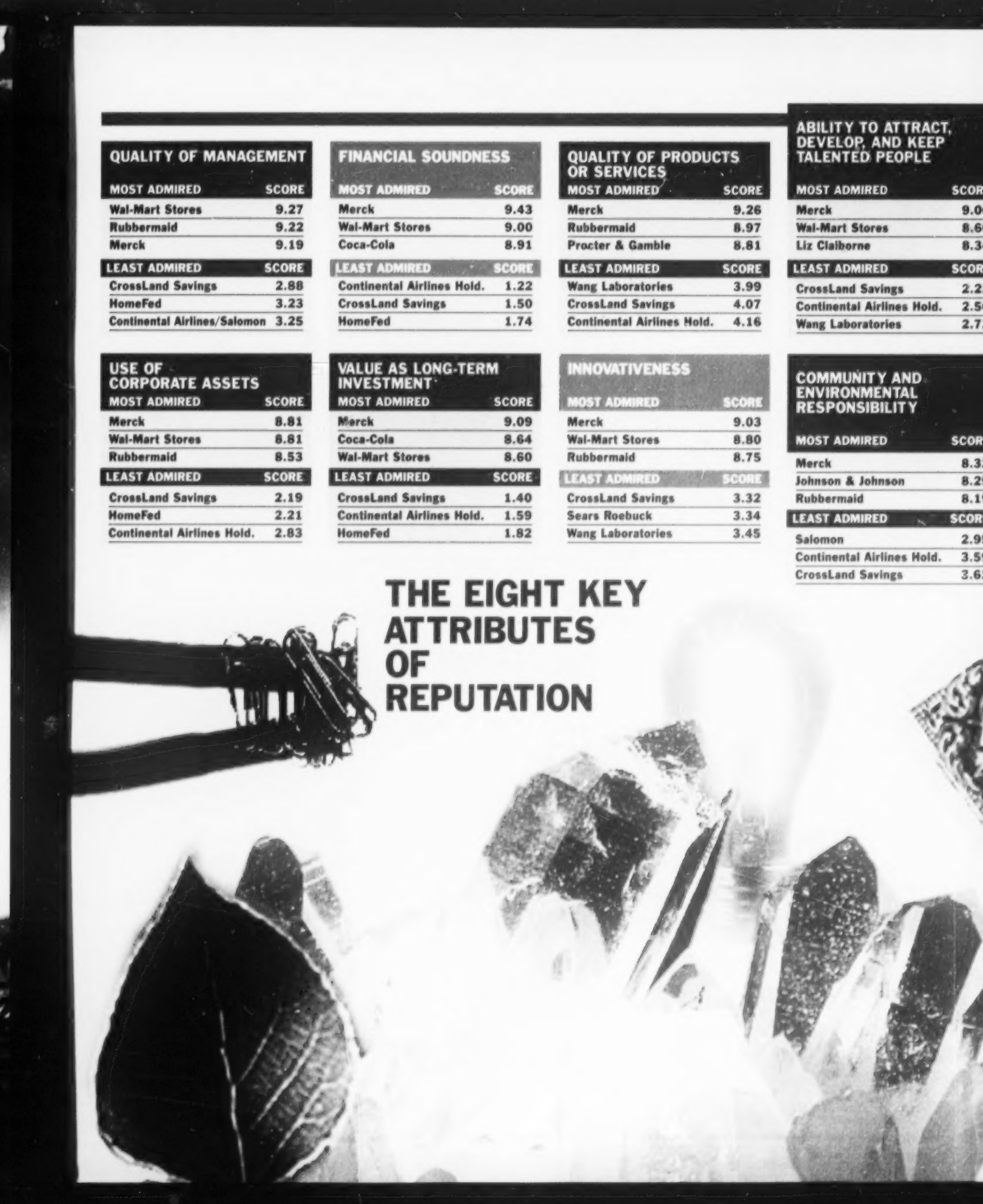
USE OF CORPORATE ASSETS	
MOST ADMIRED	SCORE
Merck	8.81
Wal-Mart Stores	8.81
Rubbermaid	8.53
LEAST ADMIRED	**SCORE**
CrossLand Savings	2.19
HomeFed	2.21
Continental Airlines Hold.	2.83

VALUE AS LONG-TERM INVESTMENT	
MOST ADMIRED	SCORE
Merck	9.09
Coca-Cola	8.64
Wal-Mart Stores	8.60
LEAST ADMIRED	**SCORE**
CrossLand Savings	1.40
Continental Airlines Hold.	1.59
HomeFed	1.82

INNOVATIVENESS	
MOST ADMIRED	SCORE
Merck	9.03
Wal-Mart Stores	8.80
Rubbermaid	8.75
LEAST ADMIRED	**SCORE**
CrossLand Savings	3.32
Sears Roebuck	3.34
Wang Laboratories	3.45

COMMUNITY AND ENVIRONMENTAL RESPONSIBILITY	
MOST ADMIRED	SCOR
Merck	8.3
Johnson & Johnson	8.2
Rubbermaid	8.1
LEAST ADMIRED	**SCOR**
Salomon	2.9
Continental Airlines Hold.	3.5
CrossLand Savings	3.6

THE EIGHT KEY ATTRIBUTES OF REPUTATION



who replaced Allen Jacobson as CEO. Global warrior Coca-Cola dropped a notch to No. 7 but for the first time in five years had a higher ranking than Pepsi. Strong overseas earnings helped Coke grab the gold for all financial measures in its industry.

The award for the most improved camper goes to RJR Nabisco Holdings with its spectacular 29% score increase, which pushed it to No. 107 from No. 261. In the three years since its leveraged buyout redefined the word "greed," RJR has halved its debt to $14.4 billion, sold 45% of itself back to the public, received an investment grade rating on half its formerly junk bonds, and turned a profit. Says CEO Louis Gerstner: "What I'm most proud of is that unlike some LBOs, we've continued to protect, build, and strengthen our brands." Practically the entire 11% increase in food sales in the first nine months of 1991 came from new products. But the company still has a way to go: Just before the infamous buyout, RJR was No. 17.

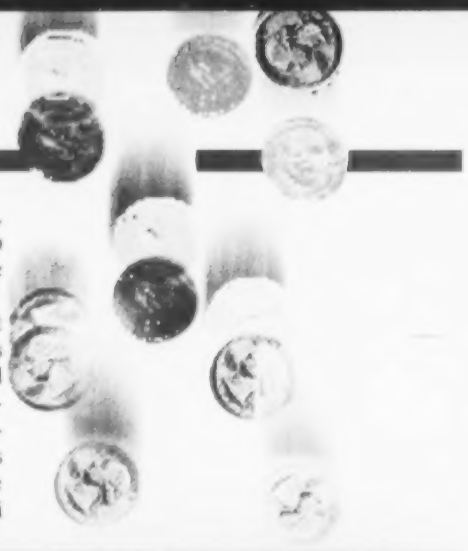
WHAT DOES a corporate reputation consist of? This year, 82% of the directors, senior executives, and analysts that FORTUNE polls cited quality of management as paramount. Quality of products or services came next with 63% of the vote. But Merck pointedly insists that its secret lies in attracting, developing, and keeping good people—and 30% of the survey respondents agree that the quality of the work force is the most important attribute of reputation. At Merck promotions and salary increases for a senior executive are affected by how many people that person has recruited and trained. Says Richard Markham, head of worldwide marketing: "We look at recruiting with the same kind of intensity as we do discovering new molecules in the lab."

A company's financial performance also has a halo effect on its reputation. Each of the most admired (see chart) has consistently produced first-rate returns for investors, while the least admired have not. Returns for some of the bottom group might look high in 1991, but only because the stocks took off from a sea-level base.

Most of the top ten also have consistent and enviable growth records. For five years running, Rubbermaid has met or exceeded its corporate goal of 15% annual profit increases, and Wal-Mart has outsold and outgrown its competitors with annual earnings expansions of at least 20% for the past five years. Robert Haas, the CEO of Levi Strauss, believes his company has soared in the survey because people are noticing its rapid debt reduction and five-year streak of record sales increases. He says, "Reputation definitely tilts in favor of financial success."

Even in a recession the folks at the top remain big spenders, with plump R&D and capital budgets. Says Walter Williams of Rubbermaid, which increased its capital spending 30% to some $130 million last year: "Our results are strong because we decided in 1990 that 1991 would be dismal. So we started accelerating the introduction of 300 new products and promoted them relentlessly. We deal with a downturn by continuing to invest heavily." Wal-Mart opened more than 140 stores, including some in such economically parched states as Connecticut, and expanded its grocery business. CEO David Glass gloats just a bit: "When times are tough, people who may traditionally shop somewhere else come to Wal-Mart."

The most admired compa-



MOST ADMIRED

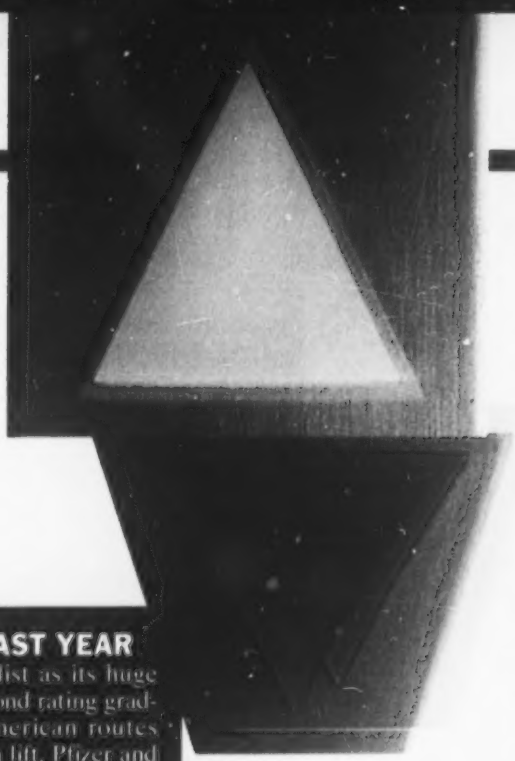
COMPANY	TOTAL RETURN TO INVESTORS ANNUAL AVERAGE 1981–91	1991
Merck	31.4%	89.2%
Rubbermaid	34.8%	84.3%
Wal-Mart Stores	46.8%	95.4%
Liz Claiborne	43.5%	43.1%
Levi Strauss Associates	N.A.	N.A.
Johnson & Johnson	22.8%	62.3%
Coca-Cola	35.0%	75.3%
3M	17.8%	15.0%
PepsiCo	27.0%	32.3%
Procter & Gamble	20.9%	11.0%
S&P 500	17.5%	30.5%

LEAST ADMIRED

COMPANY	TOTAL RETURN TO INVESTORS ANNUAL AVERAGE 1981–91	1991
CrossLand Savings	N.A.	-95.7%
Continental Airlines Holdings	-22.2%	-75.0%
HomeFed	N.A.	-93.7%
Wang Laboratories	-15.6%	9.5%
Unisys	-5.8%	65.0%
LTV	-25.4%	62.6%
Dime Savings Bank of New York	N.A.	42.1%
CalFed	N.A.	-48.1%
JPS Textile Group	N.A.	N.A.
Glenfed	N.A.	-27.5%
Interco	-15.2%	81.4%
S&P 500	17.5%	30.5%

WHAT THEY DID FOR SHAREHOLDERS

Total return includes stock price changes and reinvested dividends. Companies marked N.A. were not public for the full decade. Impressive one-year gains for some least admired come off a low base.



BIGGEST GAINERS AND LOSERS

BIGGEST GAINS OVER LAST YEAR

RJR leads the most improved list as its huge LBO debt shrinks and its junk bond rating gradually improves. New Latin American routes bought from Pan Am give UAL a lift. Pfizer and BankAmerica show much self-improvement.

COMPANY	POINT CHANGE	PERCENT	SCORE
RJR Nabisco	1.49	29.3%	6.58
UAL	1.18	23.0%	6.31
Hanson Industries	0.93	18.0%	6.11
Pfizer	0.92	13.5%	7.73
Lockheed	0.84	15.2%	6.37
BankAmerica	0.83	13.5%	6.96
VF	0.83	13.6%	6.93
Merrill Lynch	0.78	14.8%	6.05
Avon Products	0.77	15.7%	5.69
Chemical Banking Corp.	0.65	15.0%	4.99

BIGGEST LOSSES OVER LAST YEAR

HomeFed has dug itself deeply into a hole with real estate loans. The Treasury scandal embarrasses Salomon; and Security Pacific, after racking up second- and third-quarter losses, needs its new merger mate, BankAmerica, badly.

COMPANY	POINT CHANGE	PERCENT	SCORE
HomeFed	-1.85	-37.9%	3.03
Salomon	-1.28	-22.1%	4.51
Security Pacific	-1.23	-19.3%	5.14
Avondale Industries	-1.14	-20.0%	4.56
Shell Oil	-1.05	-13.3%	6.83
CalFed	-1.02	-20.5%	3.95
Tenneco	-0.94	-15.4%	5.15
Westinghouse Electric	-0.93	-14.1%	5.65
Citicorp	-0.91	-15.1%	5.11
J.C. Penney	-0.85	-13.0%	5.68

nies just never stop tweaking their products, which were pretty good to begin with. P&G, for example, has reconfigured Luvs and Pampers to fit every bottom known to babyhood, and its detergents are now available in luggable concentrate size in over 30 countries. Says CEO Edwin Artzt: "Concentrate detergent is a real win for consumers. It's easier to carry, and it's good for the environment because it reduces the amount of packaging and chemicals per washload."

Johnson & Johnson has accelerated the growth of its over-the-counter business by expanding Tylenol cold and flu lines and launching drugs like Monistat 7, an antifungal cream once available only by prescription. Today 30% of J&J revenues come from products introduced in the past five years. Last year Pepsi's snack food division spent as much as it has in the past seven years combined on such quality improvements as reducing the number of broken chips in Ruffles. Says CEO Wayne Calloway: "We start with the mind-set that innovation and continuous improvement are critical."

Companies that rest on their laurels don't stay on top for long. Take IBM, which was dethroned as the most admired company by Merck in 1987 after four years of wearing the crown. It has been wending its way downward ever since as its hold on the marketplace and the price of its stock slip. This year, with low scores in innovation and wise use of assets, Big Blue tumbled from No. 32 to No. 118.

THE LEAST ADMIRED list tends to be littered with repeat offenders, companies in Chapter 11, and big-time money losers. LTV (No. 302), which owns LTV steel and is in Chapter 11 bankruptcy proceedings, has been among the least admired for seven years running. Wang (No. 304) and Unisys (No. 303) are three-time losers, while Continental Airlines (No. 306), still in Chapter 11, is parked on the list for the second year in a row—make that five if you count its predecessor, Texas Air. New arrivals are Interco (No. 297), now in Chapter 11, and JPS Textile Group (No. 299).

Five of the bottom group are savings institutions. Some, like CrossLand (No. 307) and HomeFed (No. 305), have so little capital and so many bad loans that their chances of climbing out of the cellar as independent entities are slim. The government is currently shopping around for buyers for CrossLand. Says Gary Gordon, an analyst with Paine Webber: "No question about it. These two will be on the most admired list of bankruptcy lawyers in 1992." Indeed, Goldome and Great American Bank, which graced the bottom last year, failed in 1991 and were taken over by the government. Dime Savings Bank of New York (No. 301), CalFed (No. 300), and Glenfed (No. 297) also lurk about glumly, weighted down with the cement overshoes of bad real estate loans.

Corporate reputation is a fragile and surprising asset. Of the 47 companies on the least admired list for the last decade, many, like American Motors and Pan Am, have been swallowed up by other companies or disappeared into bankruptcy. But some 20%, like BankAmerica, now No. 66 and third in its industry, have painfully clambered up. Fortunately, perceptions can be changed, albeit slowly, by the reality of an improving situation. Which is why a hopeful Richard Parsons, CEO of Dime Savings Bank, says, "Adversity builds character." And character builds reputations.

HOW ALL 307 COMPANIES RANK

Here are their scores, covering eight attributes, on a scale from zero, least admired, to ten, most admired.

307. **CrossLand Savings** 2.63
306. **Continental Airlines** 2.87
305. **HomeFed** 3.03
304. **Wang Labs** 3.17
303. **Unisys** 3.32
302. **LTV** 3.70
301. **Dime** 3.73
300. **CalFed** 3.95
299. **JPS Textile Group** 4.00
297. **Glenfed** 4.10
297. **Interco** 4.10
295. **Amoskeag** 4.24
295. **Sears Roebuck** 4.24
294. **Chrysler** 4.27
293. **National Steel** 4.28
292. **Equitable Life** 4.30
291. **Burlington** 4.33
290. **USAir** 4.47
289. **Champion** 4.49
288. **Salomon** 4.51
287. **Maxxam** 4.52
286. **Hartmarx** 4.54
284. **Avondale** 4.56
284. **McDonnell Douglas** 4.56
282. **Boise Cascade** 4.64
282. **Travelers Corp.** 4.64
281. **Travelers** 4.65
280. **Chase Manhattan** 4.68
279. **Occidental Petr.** 4.70
278. **Mfrs. Hanover** 4.71
277. **USG** 4.74
276. **FirstFed Mich. Corp.** 4.81
274. **Navistar** 4.83
274. **Northwest Airlines** 4.83
273. **Bethlehem Steel** 4.84
272. **Grumman** 4.85
271. **West Point-Pepperell** 4.86
270. **A&P** 4.91
268. **Stone Container** 4.95
268. **Wickes** 4.95
267. **Chemical Banking** 4.99
265. **Grt. Am. Mgt. & Inv.** 5.01
265. **Inland Steel** 5.01
264. **Holnam** 5.02
263. **Northrop** 5.03
262. **Penn Central** 5.05
261. **Citicorp** 5.11
260. **Security Pacific** 5.14
259. **Tenneco** 5.15
258. **DWG** 5.21
257. **Southdown** 5.22
256. **Sequa** 5.25
255. **Aetna** 5.32
254. **Crystal Brands** 5.34
251. **Borden** 5.37
251. **Cigna** 5.37
251. **Gitano Group** 5.37
250. **Union Carbide** 5.42
249. **McDermott** 5.43
248. **W.R. Grace** 5.47
247. **USX** 5.50
246. **Sun** 5.51
245. **Allied-Signal** 5.53
244. **John Hancock** 5.54
242. **Harsco** 5.56
242. **Time Warner** 5.56
241. **Echlin** 5.58
240. **Polaroid** 5.60
239. **Lafarge** 5.63
236. **Asarco** 5.64
236. **Tektronix** 5.64
236. **Textron** 5.64
234. **Aetna Life** 5.65
234. **Westinghouse** 5.65
231. **American Stores** 5.66
231. **James River** 5.66
231. **Sealy Holdings** 5.66
229. **ITT** 5.68
229. **J.C. Penney** 5.68
227. **Arvin Industries** 5.69
227. **Avon Products** 5.69
224. **Cummins Engine** 5.73
224. **Fruit of the Loom** 5.73
224. **Standard Commercial** 5.73
222. **Carlisle** 5.76
222. **Lyondell Petrochem.** 5.76
219. **Kellwood** 5.77
219. **Kmart** 5.77
219. **Union Texas Petr.** 5.77
218. **Kroger** 5.78
214. **American Financial** 5.79
214. **General Dynamics** 5.79
214. **Goodyear** 5.79
214. **Nynex** 5.79
213. **Weyerhaeuser** 5.80
210. **Fleetwood** 5.82
210. **Pitney Bowes** 5.82
210. **Premark** 5.82
207. **Georgia-Pacific** 5.83
207. **NCH** 5.83
207. **Peter Kiewit Sons'** 5.83
206. **Leslie Fay** 5.84
205. **Owens-Illinois** 5.85
204. **Nerco** 5.86
203. **Amax** 5.88
201. **Connecticut General** 5.89
201. **Newmont Mining** 5.89
198. **CSX** 5.92
198. **Phillips-Van Heusen** 5.92
198. **Safeway** 5.92
196. **General Motors** 5.93
196. **Raychem** 5.93
194. **Alberto-Culver** 5.94
194. **Interface** 5.94
192. **Cone Mills** 5.95
192. **McGraw-Hill** 5.95
190. **Honeywell** 5.96
190. **Standard Products** 5.96
189. **Dresser** 5.97

Least Admired 3.0 3.5 4.0 4.5 5.0 5.5

187. **Digital Equipment** 6.00
187. **Vulcan Materials** 6.00
185. **Lear Seating** 6.02
185. **TIAA** 6.02
184. **NCR** 6.03
183. **TRW** 6.04
179. **American Standard** 6.05
179. **Hanna (M.A.)** 6.05
179. **Merrill Lynch** 6.05
179. **Rockwell** 6.05
178. **Coca-Cola Ent.** 6.06
177. **Phillips Petr.** 6.08
176. **Hanson** 6.11
175. **Texas Instr.** 6.12
172. **Mead** 6.13
172. **Tyco Laboratories** 6.13
172. **United Technologies** 6.13
170. **Helene Curtis** 6.16
170. **United Telecom.** 6.16
169. **J.E. Seagram** 6.17
168. **EG&G** 6.18
167. **Eastman Kodak** 6.19
164. **Brunswick** 6.21
164. **Masco** 6.21
164. **Outboard Marine** 6.21
162. **Clorox** 6.22
162. **Louisiana Land** 6.22
161. **Ralston Purina** 6.23
158. **Baker Hughes** 6.25
158. **Dibrell Brothers** 6.25
158. **Southern** 6.25
157. **May Stores** 6.26
155. **American Express** 6.28
155. **Universal** 6.28
154. **Whirlpool** 6.29
153. **UAL** 6.31
152. **Marriott** 6.32
149. **Cooper Industries** 6.33
149. **Enron** 6.33
149. **Trinity Industries** 6.33
147. **Ford Motor** 6.34
147. **Hoechst Celanese** 6.34
145. **Parker Hannifin** 6.35
145. **Scott Paper** 6.35
143. **Crown Cork & Seal** 6.36
143. **Texaco** 6.36
140. **Adolph Coors** 6.37
140. **Brown-Forman** 6.37
140. **Lockheed** 6.37
139. **American Cyanamid** 6.38
138. **Phelps Dodge** 6.39
134. **Baxter International** 6.40
134. **FNMA** 6.40
134. **Lorillard** 6.40
134. **Oryx Energy** 6.40
133. **Stanhome** 6.42
130. **Amer. Home Prod.** 6.43
130. **Ingersoll-Rand** 6.43
130. **Union Pacific** 6.43
129. **Black & Decker** 6.44
128. **Dana** 6.45
127. **Becton Dickinson** 6.46
124. **BASF** 6.47
124. **Fleming** 6.47
124. **Kimball** 6.47
121. **Campbell Soup** 6.48
121. **Raytheon** 6.48
121. **Super Valu Stores** 6.48
120. **McKesson** 6.49

118. **IBM** 6.50
118. **Wells Fargo** 6.50
117. **Paccar** 6.51
116. **Hon Industries** 6.52
113. **Bayer USA** 6.53
113. **Compaq Computer** 6.53
113. **New York Life** 6.53
111. **MCI Communications** 6.54
111. **Owens-Corning** 6.54
110. **Chevron** 6.56
109. **Upjohn** 6.57
107. **Johnson Controls** 6.58
107. **RJR Nabisco** 6.58
106. **Caterpillar** 6.59
105. **Eaton** 6.62
103. **American Brands** 6.63
103. **Freeport-McMoRan** 6.63
101. **Armstrong** 6.64
101. **Bausch & Lomb** 6.64
100. **Times Mirror** 6.66
98. **Tribune** 6.67
98. **Xerox** 6.67
97. **H.F. Ahmanson** 6.68
96. **Burlington Resources** 6.69
95. **Metropolitan Life** 6.73
92. **Archer Daniels** 6.76
92. **Great Western** 6.76
92. **Stanley Works** 6.76
90. **International Paper** 6.77
90. **Prudential** 6.77
89. **US West** 6.78
88. **NationsBank*** 6.79
86. **Colgate-Palmolive** 6.80
86. **Warner-Lambert** 6.80
85. **Reynolds Metals** 6.81
84. **Dayton Hudson** 6.82
82. **GTE** 6.83
82. **Shell Oil** 6.83
81. **Exxon** 6.84
79. **Bandag** 6.85
79. **New York Times** 6.85
78. **Sun Microsystems** 6.86
77. **Alcoa** 6.87
75. **Martin Marietta** 6.93
75. **VF** 6.93
72. **Donnelley (R.R.)** 6.94
72. **Monsanto** 6.94
72. **Unilever U.S.** 6.94
69. **AMR** 6.95
69. **Knight-Ridder** 6.95
69. **Leggett & Platt** 6.95
66. **Apple Computer** 6.96
66. **BankAmerica** 6.96
66. **Federal Express** 6.96
65. **Mobil** 6.97
64. **Southwestern Bell** 6.98
62. **Illinois Tool Works** 6.99
62. **Springs Industries** 6.99

59. **Dow Jones** 7.04
59. **Emerson Electric** 7.04
59. **La-Z-Boy Chair** 7.04
56. **AIG** 7.05
56. **Bankers Trust** 7.05
56. **Schulman (A.)** 7.05
55. **H.J. Heinz** 7.06
54. **Deere** 7.07
51. **Gannett** 7.12
51. **Gillette** 7.12
51. **PPG** 7.12
49. **Ameritech** 7.14
49. **Reader's Digest** 7.14
48. **Int'l Flavors & Frag.** 7.15
47. **Cooper Tire** 7.16
46. **Morgan Stanley** 7.18
45. **Sara Lee** 7.19
44. **UST** 7.21
41. **Bell Atlantic** 7.22
41. **Pacific Gas & Elec.** 7.22
41. **Philip Morris** 7.22
39. **Amoco** 7.24
39. **Golden West** 7.24
38. **Northwestern Mutual** 7.26
37. **Delta Air Lines** 7.27
36. **ConAgra** 7.28
35. **Pacific Telesis** 7.29
33. **AT&T** 7.30
33. **Schering-Plough** 7.30
32. **BellSouth** 7.33
31. **Hewlett-Packard** 7.34
30. **Arco** 7.37
29. **Shaw Industries** 7.40
28. **Motorola** 7.42
26. **Abbott Laboratories** 7.44
26. **Dow Chemical** 7.44

25. **Harley-Davidson** 7.50
24. **United Parcel** 7.52
23. **General Mills** 7.55
21. **Du Pont** 7.59
21. **Herman Miller** 7.59
20. **General Electric** 7.67
19. **Kimberly-Clark** 7.71
18. **Corning** 7.72
17. **Pfizer** 7.73
16. **Anheuser-Busch** 7.75
15. **J.P. Morgan** 7.79
14. **Eli Lilly** 7.89
13. **Berkshire Hathaway** 7.92
12. **Boeing** 7.98
11. **Bristol-Myers Squibb** 7.99

9. **PepsiCo** 8.00
9. **Procter & Gamble** 8.00
8. **3M** 8.12
7. **Coca-Cola** 8.13
6. **Johnson & Johnson** 8.22
5. **Levi Strauss** 8.26
4. **Liz Claiborne** 8.43

3. **Wal-Mart Stores** 8.58
2. **Rubbermaid** 8.66
1. **Merck** 9.02

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6.5 7.0 7.5 8.0 8.5

Most Admired

* Name changed from NCNB.

HOW COMPANIES RANK IN 32 INDUSTRIES

Industry groups are based on U.S. Office of Management and Budget categories. Companies are assigned to a group according to the industry or service that contributed most to 1990 sales.

MINING, CRUDE-OIL PRODUCTION

Restructured Burlington returns a winner, booting Oryx, which piled on debt to buy back stock.

RANK	LAST YEAR	COMPANY	SCORE
1	—	Burlington Resources[1]	6.69
2	2	Freeport-McMoRan	6.63
3	1	Oryx Energy	6.40
4	3	Louisiana Land & Exploration	6.22
5	—	Hanson Industries[2]	6.11
6	7	Vulcan Materials	6.00
7	8	Newmont Mining	5.89
8	4	Nerco	5.86
9	6	Union Texas Petroleum	5.77
10	9	Asarco	5.64

PETROLEUM REFINING

Arco displaces Shell, which tumbled four places, as its refining and marketing operations flagged.

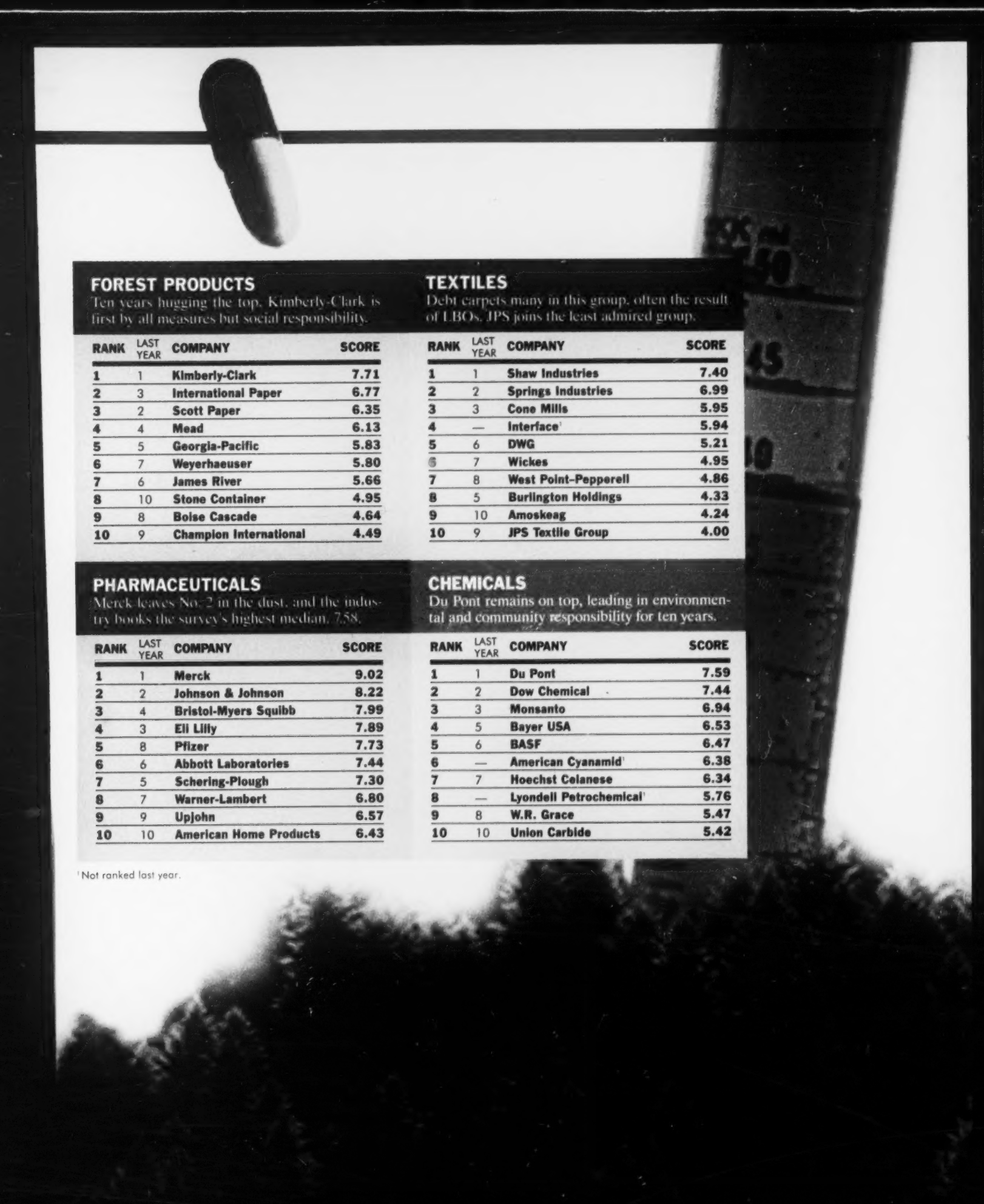
RANK	LAST YEAR	COMPANY	SCORE
1	3	Arco	7.37
2	2	Amoco	7.24
3	4	Mobil	6.97
4	6	Exxon	6.84
5	1	Shell Oil	6.83
6	5	Chevron	6.56
7	7	Texaco	6.36
8	8	Phillips Petroleum	6.08
9	—	Sun[1]	5.51
10	10	USX	5.50

UTILITIES

PacTel gets close to BellSouth, with high scores in innovativeness and ability to attract people.

RANK	LAST YEAR	COMPANY	SCORE
1	1	BellSouth	7.33
2	2	Pacific Telesis Group	7.29
3	2	Bell Atlantic	7.22
3	6	Pacific Gas & Electric	7.22
5	4	Ameritech	7.14
6	5	Southwestern Bell	6.98
7	7	GTE	6.83
8	8	US West	6.78
9	9	Southern	6.25
10	10	Nynex	5.79

[1]Not ranked last year. [2]No. 9 in chemicals last year.



FOREST PRODUCTS

Ten years hugging the top. Kimberly-Clark is first by all measures but social responsibility.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Kimberly-Clark	7.71
2	3	International Paper	6.77
3	2	Scott Paper	6.35
4	4	Mead	6.13
5	5	Georgia-Pacific	5.83
6	7	Weyerhaeuser	5.80
7	6	James River	5.66
8	10	Stone Container	4.95
9	8	Boise Cascade	4.64
10	9	Champion International	4.49

TEXTILES

Debt carpets many in this group, often the result of LBOs. JPS joins the least admired group.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Shaw Industries	7.40
2	2	Springs Industries	6.99
3	3	Cone Mills	5.95
4	—	Interface[1]	5.94
5	6	DWG	5.21
6	7	Wickes	4.95
7	8	West Point-Pepperell	4.86
8	5	Burlington Holdings	4.33
9	10	Amoskeag	4.24
10	9	JPS Textile Group	4.00

PHARMACEUTICALS

Merck leaves No. 2 in the dust, and the industry books the survey's highest median, 7.58.

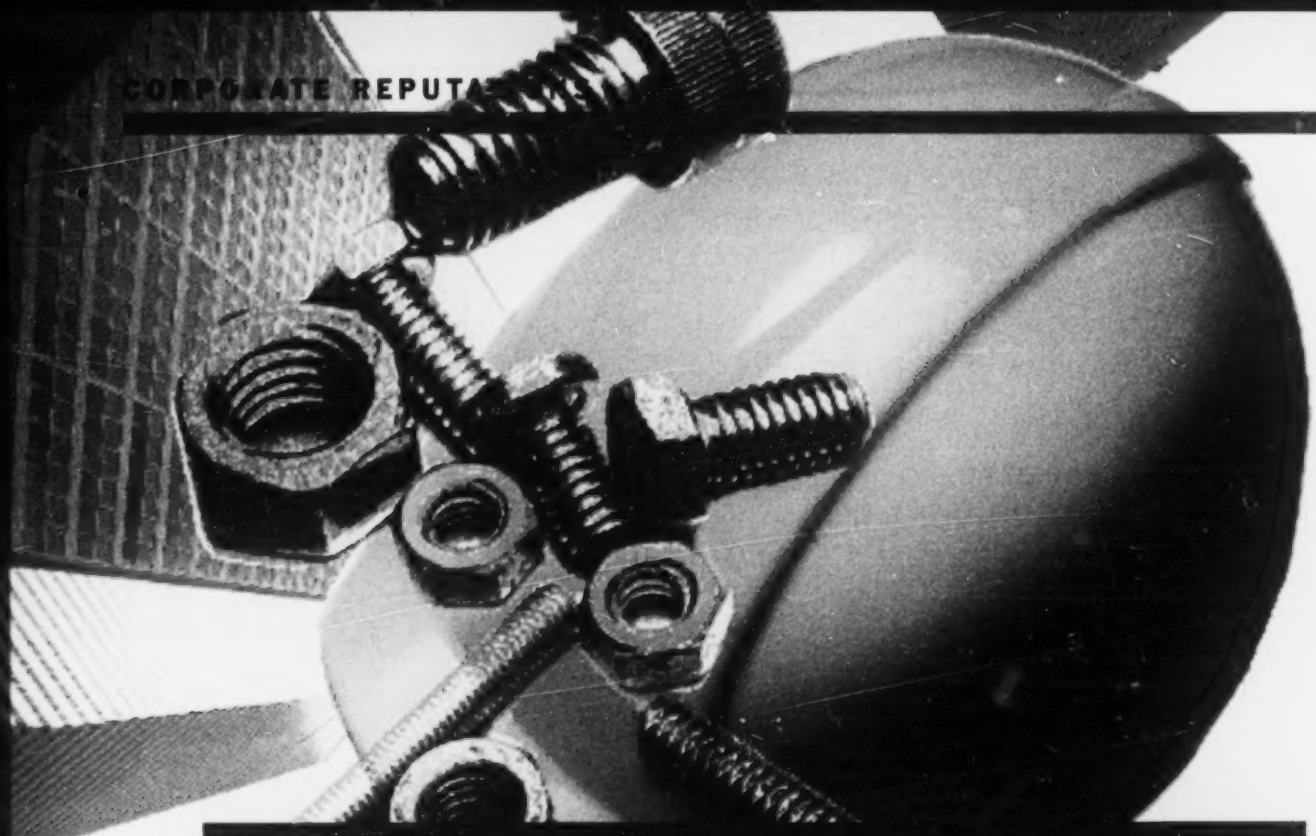
RANK	LAST YEAR	COMPANY	SCORE
1	1	Merck	9.02
2	2	Johnson & Johnson	8.22
3	4	Bristol-Myers Squibb	7.99
4	3	Eli Lilly	7.89
5	8	Pfizer	7.73
6	6	Abbott Laboratories	7.44
7	5	Schering-Plough	7.30
8	7	Warner-Lambert	6.80
9	9	Upjohn	6.57
10	10	American Home Products	6.43

CHEMICALS

Du Pont remains on top, leading in environmental and community responsibility for ten years.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Du Pont	7.59
2	2	Dow Chemical	7.44
3	3	Monsanto	6.94
4	5	Bayer USA	6.53
5	6	BASF	6.47
6	—	American Cyanamid[1]	6.38
7	7	Hoechst Celanese	6.34
8	—	Lyondell Petrochemical[1]	5.76
9	8	W.R. Grace	5.47
10	10	Union Carbide	5.42

[1] Not ranked last year.



METALS

Alcoa is the high scorer in financial soundness; Reynolds is numero uno in four measures.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Alcoa	6.87
2	2	Reynolds Metals	6.81
3	3	Phelps Dodge	6.39
4	4	Amax	5.88
5	—	Penn Central[1]	5.05
6	5	Inland Steel Industries	5.01
7	7	Bethlehem Steel	4.84
8	7	Maxxam	4.52
9	9	National Steel	4.28
10	10	LTV	3.70

METAL PRODUCTS

Gillette looked sharp in four measures and managed to displace Illinois Tool Works as No. 1.

RANK	LAST YEAR	COMPANY	SCORE
1	2	Gillette	7.12
2	1	Illinois Tool Works	6.99
3	3	Stanley Works	6.76
4	7	Crown Cork & Seal	6.36
5	4	Masco	6.21
6	—	Tyco Laboratories[1]	6.13
7	—	Peter Kiewit Sons'[1]	5.83
8	9	Harsco	5.56
9	10	McDermott International	5.43
10	—	Sequa[1]	5.25

BUILDING MATERIALS

Corning, maker of Steuben crystal and Pyrex, has been set in concrete as No. 1 since 1984.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Corning	7.72
2	—	PPG Industries[2]	7.12
3	—	Armstrong World Industries[3]	6.64
4	2	Owens-Corning Fiberglas	6.54
5	6	American Standard	6.05
6	3	Owens-Illinois	5.85
7	4	Lafarge	5.63
8	—	Southdown[1]	5.22
9	—	Holnam[1]	5.02
10	8	USG	4.74

RUBBER & PLASTIC PRODUCTS

While Rubbermaid bounces along with new products, declines in seven measures flatten Premark.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Rubbermaid	8.66
2	3	Cooper Tire & Rubber	7.16
3	2	A. Schulman	7.05
4	—	Bandag[1]	6.85
5	—	M.A. Hanna[1]	6.05
6	5	Standard Products	5.96
7	6	Raychem	5.93
8	4	Premark International	5.82
9	8	Goodyear Tire & Rubber	5.79
10	7	Carlisle	5.76

[1]Not ranked last year.
[2]No. 4 in chemicals last year.
[3]No. 4 in textiles last year.

TOBACCO

As the smoke cleared from its LBO, RJR had the largest entire gain in the survey, up 29%.

RANK	LAST YEAR	COMPANY	SCORE
1	1	UST	7.21
2	2	American Brands	6.63
3	—	RJR Nabisco Holdings[2]	6.58
4	3	Lorillard	6.40
5	4	Universal	6.28
6	5	Dibrell Brothers	6.25
7	6	Standard Commercial	5.73

BEVERAGES

Coke is the real thing this year, and Pepsi slips because earnings at Frito-Lay got crunched.

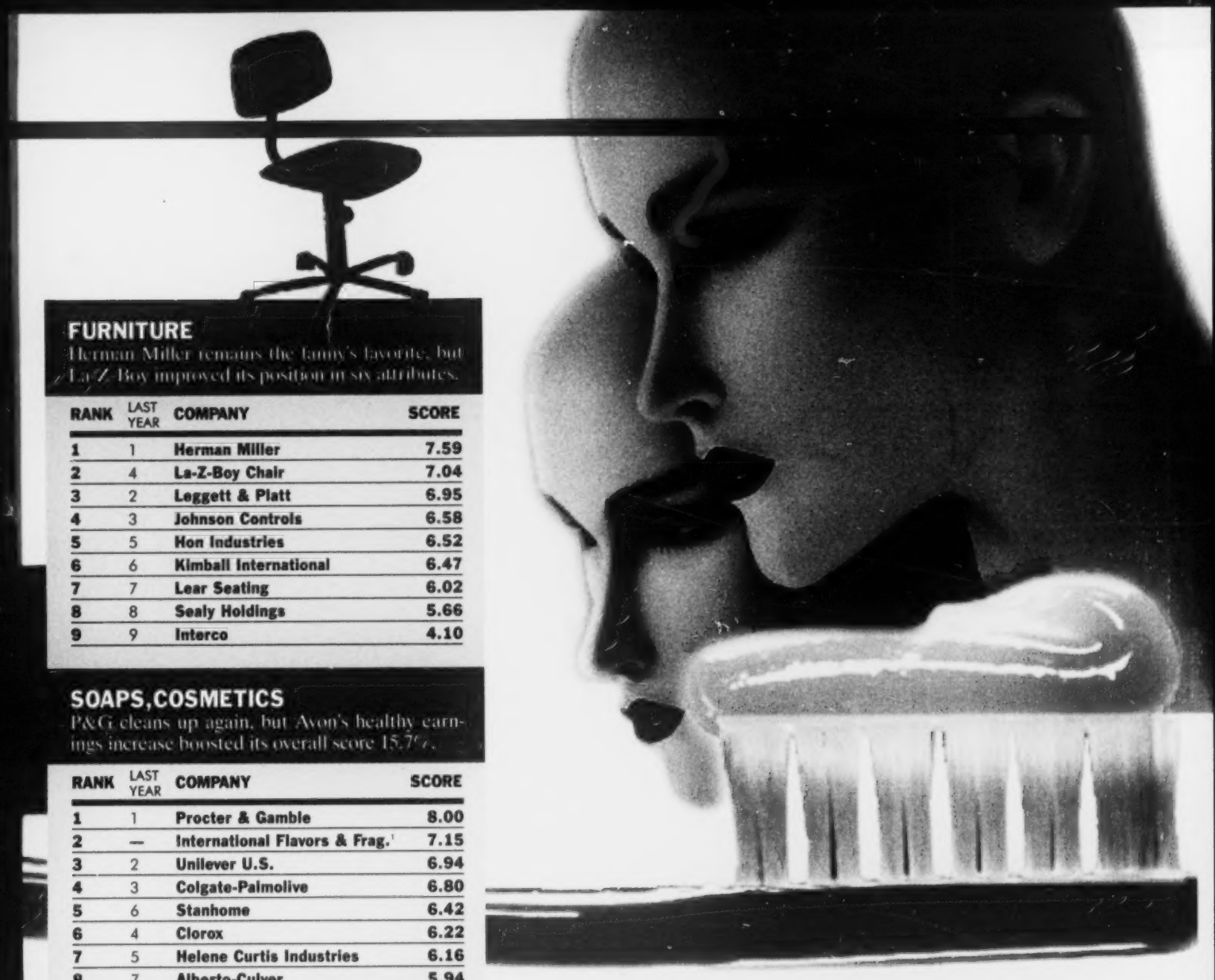
RANK	LAST YEAR	COMPANY	SCORE
1	2	Coca-Cola	8.13
2	1	PepsiCo	8.00
3	3	Anheuser-Busch	7.75
4	4	Adolph Coors	6.37
4	5	Brown-Forman	6.37
6	6	J.E. Seagram	6.17
7	7	Coca-Cola Enterprises	6.06

FOOD

General Mills takes the cake again. ConAgra and Philip Morris each climb two places this year.

RANK	LAST YEAR	COMPANY	SCORE
1	1	General Mills	7.55
2	4	ConAgra	7.28
3	5	Philip Morris	7.22
4	3	Sara Lee	7.19
5	2	H.J. Heinz	7.06
6	6	Archer Daniels Midland	6.76
7	—	Campbell Soup[1]	6.48
8	7	Ralston Purina	6.23
9	8	Borden	5.37
10	10	Occidental Petroleum	4.70

[1] Not ranked last year.
[2] No. 9 in food last year.



FURNITURE

Herman Miller remains the fanny's favorite, but La-Z-Boy improved its position in six attributes.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Herman Miller	7.59
2	4	La-Z-Boy Chair	7.04
3	2	Leggett & Platt	6.95
4	3	Johnson Controls	6.58
5	5	Hon Industries	6.52
6	6	Kimball International	6.47
7	7	Lear Seating	6.02
8	8	Sealy Holdings	5.66
9	9	Interco	4.10

SOAPS, COSMETICS

P&G cleans up again, but Avon's healthy earnings increase boosted its overall score 15.7%.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Procter & Gamble	8.00
2	—	International Flavors & Frag.[1]	7.15
3	2	Unilever U.S.	6.94
4	3	Colgate-Palmolive	6.80
5	6	Stanhome	6.42
6	4	Clorox	6.22
7	5	Helene Curtis Industries	6.16
8	7	Alberto-Culver	5.94
9	—	NCH[1]	5.83
10	10	Avon Products	5.69

RETAILING

The Marts, Wal- and K, do well. K is up in most measures from last year's dismal show.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Wal-Mart Stores	8.58
2	2	Dayton Hudson	6.82
3	4	May Department Stores	6.26
4	8	Safeway	5.92
5	5	Kroger	5.78
6	9	Kmart	5.77
7	3	J.C. Penney	5.68
8	7	American Stores	5.66
9	6	A&P	4.91
10	10	Sears Roebuck	4.24

APPAREL

Liz leads, but Levi turns heads with top scores in three measures and five years of record sales.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Liz Claiborne	8.43
2	2	Levi Strauss Associates	8.26
3	5	VF	6.93
4	7	Phillips-Van Heusen	5.92
5	4	Leslie Fay	5.84
6	9	Kellwood	5.77
7	8	Fruit of the Loom	5.73
8	—	Gitano Group[1]	5.37
9	6	Crystal Brands	5.34
10	10	Hartmarx	4.54

[1] Not ranked last year.

SAVINGS INSTITUTIONS

Golden West, Great Western, and H.F. Ahmanson are the only stars in this sorry bunch.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Golden West Financial	7.24
2	3	Great Western Financial	6.76
3	2	H.F. Ahmanson	6.68
4	—	FirstFed Michigan[1]	4.81
5	5	Glenfed	4.10
6	4	CalFed	3.95
7	—	Dime Savings Bank of New York[1]	3.73
8	6	HomeFed	3.03
9	8	CrossLand Savings	2.63

DIVERSIFIED SERVICE

AT&T goes the long distance, and Marriott falls five notches to No. 7 under a brickload of debt.

RANK	LAST YEAR	COMPANY	SCORE
1	1	AT&T	7.30
2	—	MCI Communications[1]	6.54
3	4	McKesson	6.49
4	5	Super Valu Stores	6.48
5	8	Fleming	6.47
6	7	Enron	6.33
7	2	Marriott	6.32
8	6	United Telecommunications	6.16
9	10	American Financial	5.79
10	—	Time Warner[2]	5.56

DIVERSIFIED FINANCIAL

Salomon thudded with the Treasury scandal, and record earnings powered Merrill's rise.

RANK	LAST YEAR	COMPANY	SCORE
1	2	Morgan Stanley Group	7.18
2	1	American International Group	7.05
3	4	Federal National Mortgage Assn.	6.40
4	3	American Express	6.28
5	9	Merrill Lynch	6.05
6	7	ITT	5.68
7	8	Cigna	5.37
8	5	Aetna Life & Casualty	5.32
9	10	Travelers Corp.	4.64
10	6	Salomon	4.51

[1]Not ranked last year.
[2]No. 9 in publishing, printing last year.
[3]Great American Bank, now under government supervision; would have been No. 10.
[4]Merger announced 8/12/91.
[5]Name changed from NCNB.
[6]Merger approved 12/31/91.

LIFE INSURANCE

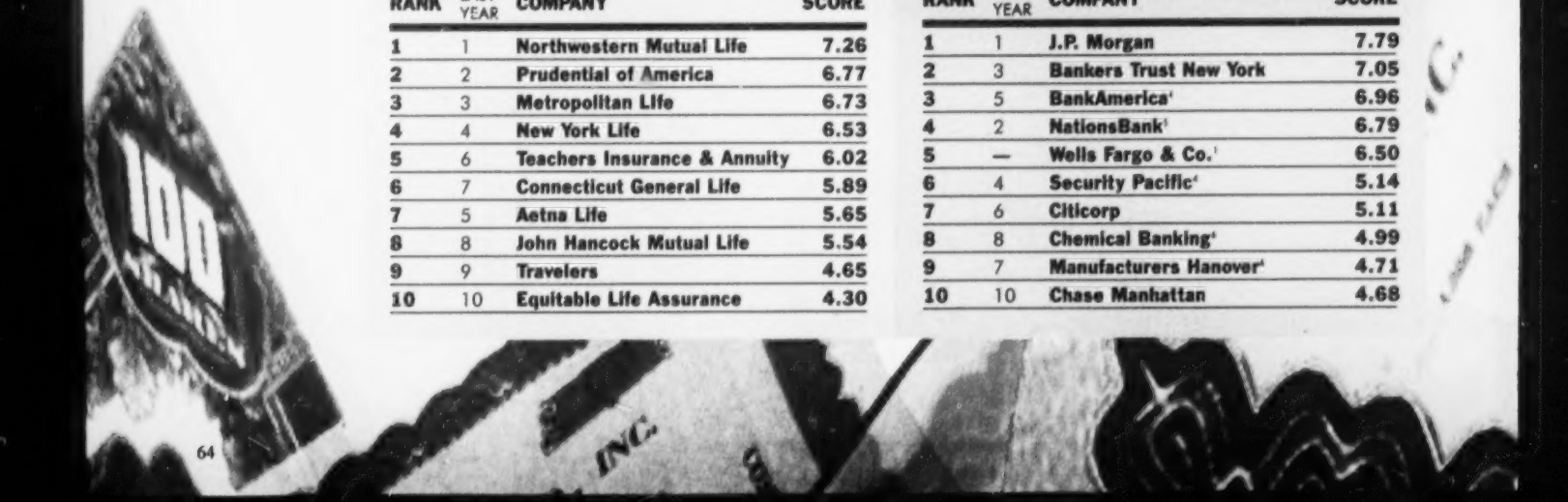
Northwestern Mutual, rated AAA by S&P and A+ by Best, quietly entrenches itself as No. 1.

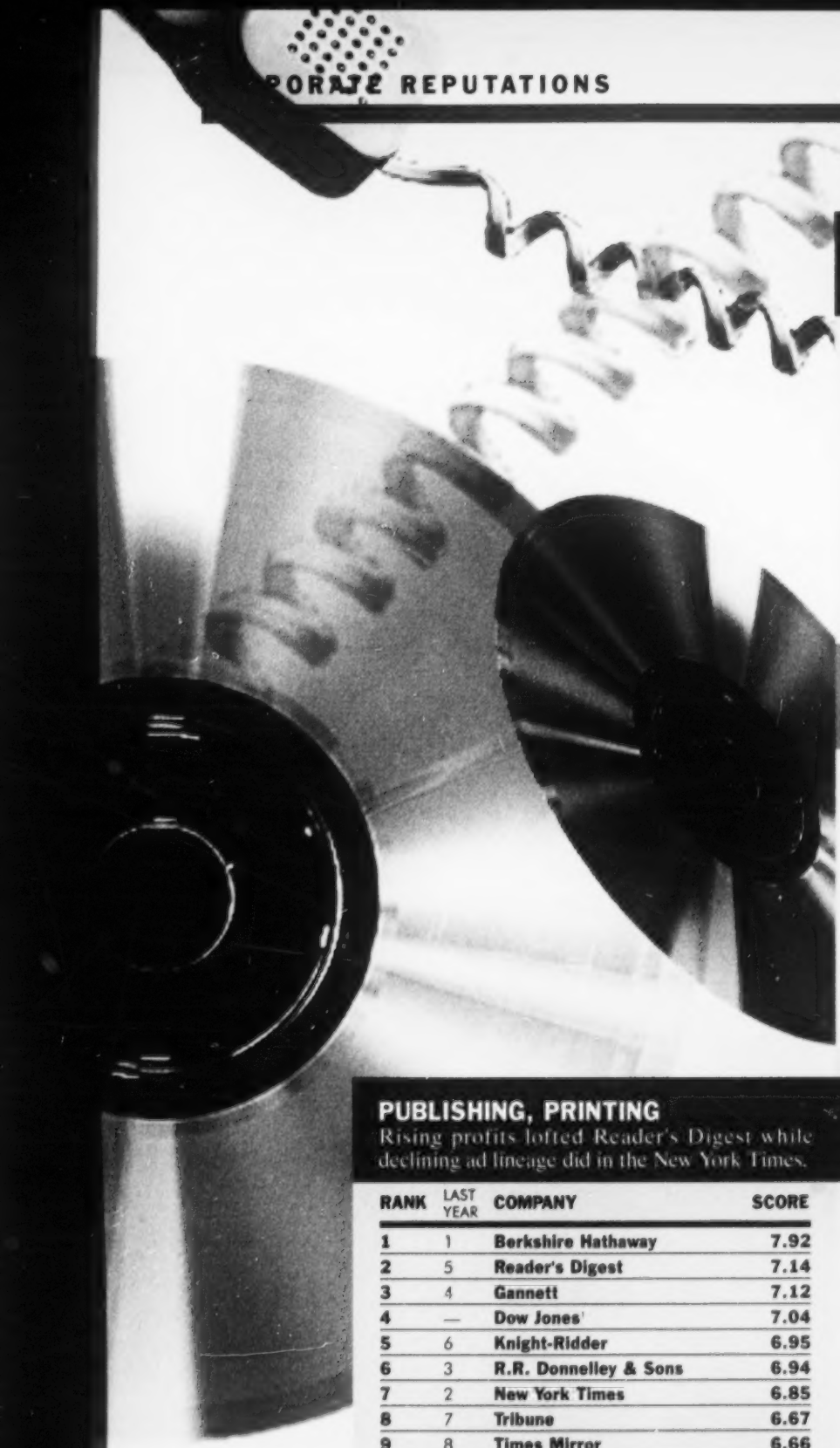
RANK	LAST YEAR	COMPANY	SCORE
1	1	Northwestern Mutual Life	7.26
2	2	Prudential of America	6.77
3	3	Metropolitan Life	6.73
4	4	New York Life	6.53
5	6	Teachers Insurance & Annuity	6.02
6	7	Connecticut General Life	5.89
7	5	Aetna Life	5.65
8	8	John Hancock Mutual Life	5.54
9	9	Travelers	4.65
10	10	Equitable Life Assurance	4.30

COMMERCIAL BANKING

J.P. Morgan is ever solid at top, but BankAmerica climbs as its bad loans get better.

RANK	LAST YEAR	COMPANY	SCORE
1	1	J.P. Morgan	7.79
2	3	Bankers Trust New York	7.05
3	5	BankAmerica[5]	6.96
4	2	NationsBank[4]	6.79
5	—	Wells Fargo & Co.[1]	6.50
6	4	Security Pacific[6]	5.14
7	6	Citicorp	5.11
8	8	Chemical Banking[6]	4.99
9	7	Manufacturers Hanover[6]	4.71
10	10	Chase Manhattan	4.68





ELECTRONICS

The juice is still on at GE, but a troubled loan portfolio short-circuited Westinghouse Electric.

RANK	LAST YEAR	COMPANY	SCORE
1	1	General Electric	7.67
2	2	Motorola	7.42
3	3	Emerson Electric	7.04
4	6	Raytheon	6.48
5	—	Cooper Industries[1]	6.33
6	7	Whirlpool	6.29
7	5	Texas Instruments	6.12
8	—	Rockwell International[2]	6.05
9	8	TRW	6.04
10	4	Westinghouse Electric	5.65

COMPUTERS & OFFICE EQUIPMENT

Big Blue should be mighty blue. Apple gets top marks for innovativeness and product quality.

RANK	LAST YEAR	COMPANY	SCORE
1	2	Hewlett-Packard	7.34
2	4	Apple Computer	6.96
3	—	Sun Microsystems[1]	6.86
4	3	Compaq Computer	6.53
5	1	IBM	6.50
6	6	NCR	6.03
7	5	Digital Equipment	6.00
8	7	Pitney Bowes	5.82
9	9	Unisys	3.32
10	10	Wang Laboratories	3.17

PUBLISHING, PRINTING

Rising profits lofted Reader's Digest while declining ad lineage did in the New York Times.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Berkshire Hathaway	7.92
2	5	Reader's Digest	7.14
3	4	Gannett	7.12
4	—	Dow Jones[1]	7.04
5	6	Knight-Ridder	6.95
6	3	R.R. Donnelley & Sons	6.94
7	2	New York Times	6.85
8	7	Tribune	6.67
9	8	Times Mirror	6.66
10	10	McGraw-Hill	5.95

SCIENTIFIC & PHOTO EQUIPMENT

Xerox regains second place, scoring well in four measures as its finance business bounces back.

RANK	LAST YEAR	COMPANY	SCORE
1	1	3M	8.12
2	6	Xerox	6.67
3	2	Bausch & Lomb	6.64
4	3	Becton Dickinson	6.46
5	5	Baxter International	6.40
6	4	Eastman Kodak	6.19
7	6	EG&G	6.18
8	—	Honeywell[3]	5.96
9	10	Tektronix	5.64
10	8	Polaroid	5.60

[1] Not ranked last year.
[2] No. 3 in aerospace last year.
[3] No. 9 in electronics last year.

AEROSPACE

A big government contract helps Lockheed take off with increases in all eight categories.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Boeing	7.98
2	2	Martin Marietta	6.93
3	8	Lockheed	6.37
4	4	United Technologies	6.13
5	5	General Dynamics	5.79
6	7	Textron	5.64
7	6	Allied-Signal	5.53
8	10	Northrop	5.03
9	—	Grumman[1]	4.85
10	9	McDonnell Douglas	4.56

TRANSPORTATION

United Parcel keeps delivering. UAL buys Pan Am's Latin American routes and improves.

RANK	LAST YEAR	COMPANY	SCORE
1	1	United Parcel Service	7.52
2	2	Delta Air Lines	7.27
3	2	Federal Express	6.96
4	4	AMR	6.95
5	5	Union Pacific	6.43
6	7	UAL	6.31
7	6	CSX	5.92
8	8	Northwest Airlines	4.83
9	9	USAir Group	4.47
10	10	Continental Airlines Holdings	2.87

MOTOR VEHICLES & PARTS

Ford declines in every measure but social responsibility. Chrysler bottoms out at No. 10.

RANK	LAST YEAR	COMPANY	SCORE
1	2	Eaton	6.62
2	3	Paccar	6.51
3	4	Dana	6.45
4	1	Ford Motor	6.34
5	5	General Motors	5.93
6	6	Fleetwood Enterprises	5.82
7	—	Arvin Industries[1]	5.69
8	—	Echlin[1]	5.58
9	8	Navistar International	4.83
10	9	Chrysler	4.27

TRANSPORTATION EQUIPMENT

Not many changes here. Harley hogs first place and vroom-vrooms from 41st to 25th overall.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Harley-Davidson	7.50
2	2	Trinity Industries	6.33
3	3	Brunswick	6.21
3	3	Outboard Marine	6.21
5	5	Avondale Industries	4.56

F

[1]Not ranked last year.

INDUSTRIAL & FARM EQUIPMENT

Deere's lead widens. Caterpillar is tops in product quality; Black & Decker in innovativeness.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Deere	7.07
2	2	Caterpillar	6.59
3	3	Black & Decker	6.44
4	4	Ingersoll-Rand	6.43
5	5	Parker Hannifin	6.35
6	7	Baker Hughes	6.25
7	8	Dresser Industries	5.97
8	9	Cummins Engine	5.73
9	10	Tenneco	5.15
10	—	Great American Management[1]	5.01

JAPAN

WHAT NOW FOR THE U.S. AND JAPAN

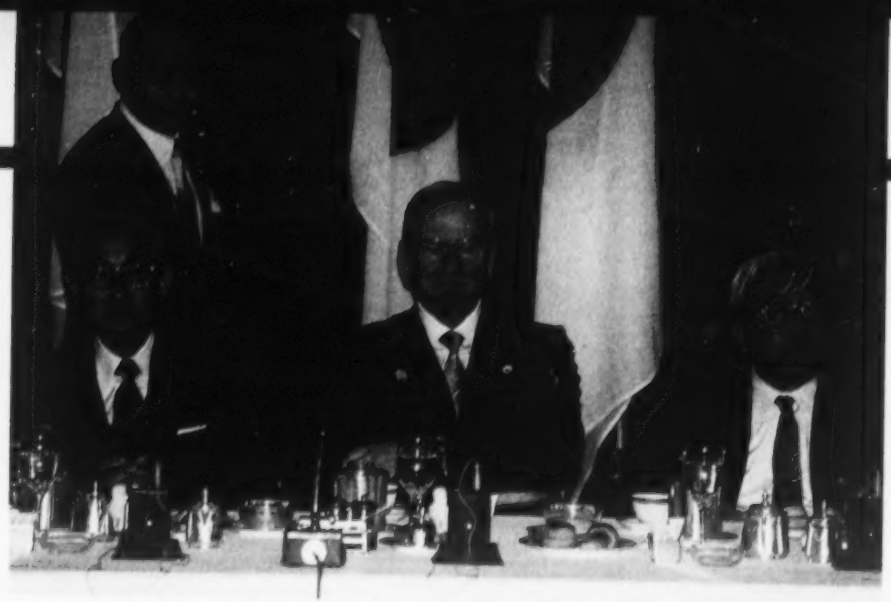
George Bush and his pack of CEOs pressed managed trade on the Japanese, but much more is needed to create jobs and boost exports. Next step: avoiding a trade war. ■ *by Allan T. Demaree*

Did Bush become a car salesman in Japan? "Damn right," says Mosbacher. "Call him guilty!"

AS THE BLUE and white Air Force 747 descended through gray skies into Osaka, the image of Japanese trade official Noboru Hatakeyama flashed on an overhead TV screen. One of the score of chief executives President Bush brought with him to Japan looked up, pointed, and shouted: "The enemy!" There were laughs all around. As the later negotiations in Tokyo got testy, the description seemed apt enough, though neither side scored a decisive victory. Said Textron CEO Beverly "Bev" Dolan in his Georgia drawl: "It's like the old Chinese saying—a lot of thunder but not much rain."

Maybe he should have said, not yet. The trip left thunderheads glowering over the world economy—and leaders in the U.S., Europe, and Japan wondering where to go from here. As Japan's major trading partners look to the East, they see a mercantilist samurai whose successive swings of the sword hack, hack, hack away at jobs, jobs, jobs and the wealth of other nations. The Japanese are out of step with world standards of behavior, they say, by not opening their markets unto others as others have opened markets unto them. If they keep resisting, the world will no longer turn the other cheek. But in the threat of retaliation lies an ever-tightening cycle of protectionism, the self-strangling trade war that has been raised as a distant specter and now seems much closer.

Bush also put his own prestige on the line by finally accepting the role of CEO of America Inc., which many U.S. executives have been urging on him for a long time. Says James D. Robinson III, CEO of American Express: "This is the first time the U.S. has come out united—the Commerce Department, the Treasury, the President, the



The man who does sell cars for a living, Lee Iacocca (center), was close to a boil all the time in Tokyo.

business community—to declare that trade is a national priority on a par with our security interests. For better or worse, we have crossed that line in the sand."

The effort may well prove to be for the better, but it was strange to see the leaders of the world's economic superpowers—responsible among them for 40% of global GNP—haggling over auto parts. Has George Bush become a car salesman? Robert Mosbacher, the former Commerce Secretary who will direct Bush's reelection campaign, bristles at the charge. Says Mosbacher, who did much to persuade his boss to dirty his nails in the crass cause of commerce: "Well, if he's a car salesman, he's in pretty damn good company. Margaret Thatcher was a car salesman, President Roh [of South Korea] is a car salesman, Mitterand is a car salesman, Kohl is a car salesman. Sure, he's interested in his country's economy, and a big part of that is autos, just as a big part of it is homes, and a big part of it is all the other things, like electronics. If you call that being a car salesman, a home salesman, an electronics salesman, damn right! Call him guilty!"

UNFORTUNATELY, call him confused as well. The President set out on a quest for jobs. The trouble is, the link between more trade and more jobs in the increasingly interrelated global marketplace is hardly simple or direct. Much of American industry, whether or not it gets new markets in Japan, needs to keep shedding jobs to increase competitiveness. As Europe's bloated and inefficient state-owned companies demonstrate, any business that puts jobs ultimately ahead of profits will soon be in trouble. To prosper, global corporations invest wherever opportunity is greatest, whether in the U.S., Mexico, South Korea, or Japan. Honda, for example, employs 43,000 Japanese and 41,600 foreigners, including 15,000 Americans.

So where does the world go from here? There should be no doubt: Avoid protectionism. Avoid trying cures like managed trade that are as bad as, and in some ways worse than, the disease. March toward ever more open markets. In the U.S., government and industry should concentrate on making America more competitive.

Seldom has the outlook for achieving unfettered markets looked more grim. Congressman Richard Gephardt (D-Missouri) and Senator Donald Riegle (D-Michigan), among others, are preparing legislation that would force Japan to cut its trade surplus with the U.S. ($41 billion in 1990) by a fifth each year for five years, or face harsh reductions in the number of cars it can sell in the U.S. (even if those cars are made in California, Kentucky, or Tennessee). It's hard to say whether such a bill could pass, but some Senate Democrats think the chances for tough new trade legislation are better now than before Bush took his trip.

Europe, which watched warily as Japan took 30% of the U.S. car market, has said no thanks to a repeat performance on its own turf. The EC has negotiated a deal to limit Japanese car sales to no more than 16% of the market through 1999 (vs. 11.5% now).

As the international competitors confronted each other in Tokyo, anger born of frustration met arrogance bred of success. Many Japanese seem not to agree with Brent Scowcroft, Bush's National Security Adviser, who argues that because Japan's exports are so large (10.7% of GNP), "a collapse of an open world trading system would perhaps hurt Japan more seriously than any other major industrial nation." Even those Japanese who do take Scowcroft's point have not figured out how to respond. Why? Because in their view, Japan's export surplus is not the result of a closed home market or of the notorious old boys' *keiretsu* network but the logical consequence of the fact that they produced goods of highest quality, designed for consumer tastes, accompanied by the best service, and sold at the most competitive price. To tell them that Japan must buy more American cars and parts is to tell them that they must be penalized for winning.

During Bush's visit, groups of American and Japanese executives from various industries gathered in closed meetings in the spacious Hotel Okura across from the American embassy. The auto session, in which Detroit's Big Three faced off against Japan's Big Five (Toyota, Nissan, Honda, Mazda, and Mitsubishi) for the first time ever, was scheduled for 75 minutes but lasted more than two hours (see box). Nissan President Yutaka Kume said the discussion was "quite tense." Robert Stempel, chairman of General Motors, described it as "hot, heavy, and hard."

How many points of market share is a Shinto blessing worth?

To the Americans, both in that meeting and others, the Japanese strategy seemed to be mostly stonewall and then, in an oft-repeated phrase, "throw us an occasional bone." In one session, a Japanese business-

REPORTER ASSOCIATES *Emily Thornton, Thomas J. Martin, and Cindy Kano*

HOW SOME COMPANIES DO IN JAPAN

COMPANY	MARKET SHARE JAPAN	U.S.	EUROPE
SCHICK RAZORS (Warner-Lambert)	69.5%	30.3%	N.A.
COCA-COLA	33.0%	41.0%	42.0%
MONROE SHOCK ABSORBERS (Tenneco Automotive)	1.0%	59.0%	28.0%
GENERAL MOTORS	0.3%	35.1%	11.6%
FORD MOTOR	0.1%	23.9%	11.1%
WORTH SPORTING GOODS (Baseball equipment)	0.0%	25.0%	5.0%

FORTUNE TABLE

man said that U.S. companies couldn't succeed in selling high-pressure gas products like propane because they didn't comply with local standards. Dexter Baker, chairman of both the National Association of Manufacturers and Air Products & Chemicals, one of the world's largest industrial gas producers, knew that was baloney—the Japanese did not follow international standards—and told him so. Says he: "That guy was trying to treat me like a backwoods Indian." Recalls Textron's Bev Dolan: "Why, I thought Dexter was like to come right up out of his seat."

Are Japanese markets really shut to foreigners? The short answer is yes, some are, a few by law (rice), others in ways more subtle and harder to pin down (flat glass, paper). Unfortunately for the American effort to make this point, the industry most visible in the trade talks had the weakest case. Yes, American autos have encountered genuine barriers (a few of which were negotiated away in Tokyo). Nobuhiko Kawamoto, the forthright head of Honda, readily admits that Japanese dealers have been slow to open up to foreign cars. But look how the Big Three performed against the Germans in the face of equal obstacles. Detroit's sales in Japan dropped from 16,282 cars in 1975 to 15,975 in 1990; Germany's climbed sixfold from 22,108 to 137,442. You can make the argument that U.S. automakers blew the game decades ago. They paid uncompetitively high wages, slipping the bill to consumers, and got sloppy in manufacturing. Unchallenged by foreign rivals at home, they were uninterested in what seemed the piddling Japanese market. Now they are getting their comeuppance.

SOME OF THE other CEOs Bush brought along thought the President weakened his case by including the automen. Says Maurice "Hank" Greenberg of American International Group, the big insurer: "A lot of their problems are at home, not here." But Mosbacher replies, "If you hadn't taken them, you'd hear, 'How could you leave out the biggest part of the problem, you dummy?' So, even though we don't always agree with what the auto guys are saying, I think they should be part of this effort. And I'll stick by that."

One of the things the carmakers were talking about was the Poling Plan, named for Harold "Red" Poling, the fiery Ford chairman who conceived it and persuaded GM's Bob Stempel and Lee Iacocca of Chrysler to support it. The plan is similar to Gephardt's proposed legislation in that it requires the Japanese to reduce their trade surplus without regard to its cause. Iacocca makes no bones about why he likes the idea: "Only 15% of the problem is access to their market," he says. "The other 85% is their exports. They have the capacity to build 14 million cars a year in a market for seven million. The Europeans won't let them in. What are they going to do? Send them to the U.S., that's what!"

The Administration split with the automakers on the Poling Plan, which it views as managed trade. But behind the scenes, at least one American negotiator was happy to see unanimity among the Big Three. In the past GM had stuck with a classic free-trade

Crossing a line in the sand: As the CEO of America Inc., the President (at podium, far right) lends a hand at the opening of a Toys "R" Us store in Kashihara.

DAVID HUSTON

FORTUNE

stance. Until the U.S. carmakers could unite, the Japanese would judge them incapable of mustering powerful support in Congress and would not feel pressure.

With the auto wars capturing headlines, better arguments for Japanese reform get overlooked. A whole parade of CEOs, including some who have done remarkably well in Japan, testify that the market is unfairly jiggered against foreigners. American Express cards are honored all over Tokyo, but Jim Robinson hasn't been able to get permission from the Ministry of Finance to dispense cash through most automatic teller machines. AIG, which has sold insurance in Japan since 1946, makes a ton of money there. Yet while it is the largest insurer of industrial risks in the U.S., its share of this segment of the Japanese market is virtually zero because local companies automatically buy from captive insurers in their own industrial groups.

TRW sells auto parts all over the world. Sales to the Japanese have risen from $50 million to $500 million annually in the past four years, about 30% inside Japan, the rest to Japanese companies elsewhere. But Chairman Joseph T. Gorman isn't satisfied. "We are the dominant supplier of our product lines in the U.S. and Europe," he says. "If we had been allowed, we could have been the same in Japan." Government regulations and tightknit *keiretsu* supply arrangements kept TRW out of the market for years. So it licensed technology to Japanese companies and participated in joint ventures. Says Gorman: "If the industry hadn't grown up this way, its basic nature would have been different and we would have had the same penetration as in Europe." Example: TRW is the main supplier of power steering gears in Europe, with 100% of both Fiat's and Volkswagen's business. Its share in Japan is single digit.

NOR DO YOU have to take only the Americans' word for it. Listen to Kim Woo-Choong, head of Daewoo, South Korea's second largest industrial group, which ships steel, consumer electronics, and textiles to both Japan and the U.S. Says Kim: "Every country has trouble selling to Japan. It is much harder selling to the Japanese than to the Americans." He cites the cohesiveness of Japanese society and the national spirit and group loyalty it engenders. Kim says that if Daewoo beats Japanese steel plate on both price and quality, competitors in Japan will pressure his customers to stop buying—and they will. The Japanese, Kim says, are "born not to import."

Noboru Hatakeyama, the "enemy" from the Air Force 747 TV screen, has heard such charges before. As MITI's vice minister for international trade, he has also investigated them. "I asked the Japanese steel companies, and they denied it," he says with a what-more-can-I-do air. "If I can catch such an example"—his hand flicks out as if to grasp an invisible fly—"I would like to solve the problem." Has he ever found discrimination against outsiders? "Once upon a time," he says, "in the case of auto dealerships, perhaps ten years ago." Not recently.

The market for *kemari* balls would be hard for the U.S. to crack, but Bush tried the game anyway.

The arrival of Bush and his entourage jolted the Japanese. Young people could hardly believe that the President of the U.S. had traveled to Japan, in their view, to beg. The old shook their heads sadly as if to say, "What a pity, a great nation has come to such a pass." Says Kawamoto of Honda: "This is the first time since World War II that I have seen a reaction like this."

Still, many older Japanese continue to feel they owe America something for all the postwar years of support and friendship. Leaders in business and government also believe it is in their interest to get George Bush reelected because the Democrats seem more insular and protectionist. How hard did MITI push Japanese automakers to make concessions? "That's a question I like to avoid," says Hatakeyama. He pauses, smiles. "Of course, actually we asked. But that was just the start. MITI's suggestion. The outcome was their decision."

The automakers promised to increase their purchases of U.S. parts from $9 billion annually to $19 billion in four years and import an estimated 20,000 more cars a year, about two days' production at GM. Small beer, and even that is not guaranteed on tap. But is this managed trade? Are sumo wrestlers chubby? The words "managed trade" nestle next to "industrial policy" in the Bush Administration's lexicon of forbidden phrases but not forbidden actions. As U.S. and Japanese negotiators grappled into the night, their movements would have defied a Kabuki choreographer. They "agreed" to nothing; to do so would have violated international trading rules laid down by GATT.

Borrowing a term from another area of public policy, an American official privately justified the deal as an effort by Japan to "undo past wrongs through affirmative action." Others talked of "specific goals" (Bush), "yardsticks for compliance" (Scowcroft), and achieving "tangible and monitored" results (Mosbacher). They made clear that this was just a "first step" and that the next one would come when Prime Minister Kiichi Miyazawa visits Washington in the spring.

What if the Americans keep coming back again and again, like Robert De Niro in the movie *Cape Fear*? Would Japan be trapped in a policy of appeasement? Some Japanese think not. Says Shoichiro Toyoda, president of Toyota Motor: "If there is something you

cannot do, you must have enough courage to say no." Hatakeyama compares the process to taking a pain killer: You take too much, and it will hurt you. "I find it quite ironic," he adds, "that the U.S. asks us for something deviating from the free trade principle that it believed in for 40 years after World War II just when the West succeeded in changing a command economy, the Soviet Union, into a market economy."

Managers who operate in the real economy will undoubtedly do what they have always done when politicians tinker with the market: demonstrate once again the law of unintended consequences. Kenichi Ohmae, prolific author and chairman of the McKinsey consulting firm in Tokyo, describes how the deal negotiated in 1986 to give U.S. companies 20% of the Japanese market for semiconductors has worked out.

The original idea was to restore chipmaking in the U.S. But because the major American producers, Texas Instruments and Motorola, shifted the bulk of their memory chip production to Asia, Ohmae says, the chips they make in Japan are now counted under the quota. "Does that help trade?" he

AUTOMAKERS TALKING PAST EACH OTHER

During Bush's trip to Japan, the heads of America's Big Three automakers met for more than two hours with their Japanese counterparts, the CEOs of Japan's Big Five. Did either side win converts? Judge for yourself. Here's what they said when the head-knocking was over:

Chrysler CEO Lee Iacocca:

They say all the problems are our fault. That's like blaming our Army and Navy for Pearl Harbor because we weren't ready. No, we don't have to show any more patience toward Japan. None.

GM CEO Robert Stempel:

[In America] we gave our distribution network to Japan. Our best dealers sell Toyotas and Hondas. We'd like the same reciprocity. We are not asking that they give us anything.

Ford Motor CEO Harold Poling:

They have had an essentially closed market for 40 years. It's time for it to open. When all of the auto manufacturers in the world can get less than 3% of a seven-million-vehicle market, something is wrong.

DIRCK HALSTEAD

The Big Three (above, from left): Robert Stempel of General Motors, Harold Poling of Ford Motor, Lee Iacocca of Chrysler. Japan's Big Five (below, from left): Toyoo Tate of Mitsubishi, Yutaka Kume of Nissan, Shoichiro Toyoda of Toyota, Nobuhiko Kawamoto of Honda, and Norimasa Furuta of Mazda.

Nissan CEO Yutaka Kume:

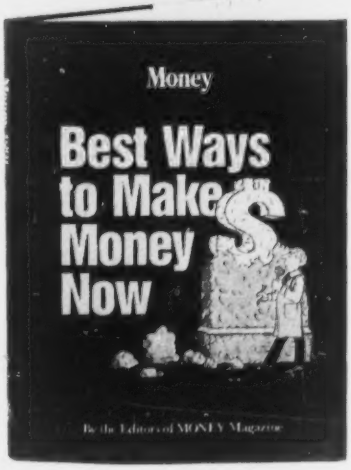
We want the American side to study the cause of the trade imbalance. I want Americans to stop saying there is an imbalance because Japan is unfair. The Japanese market is not closed or unfair. The U.S. must make more efforts. In order to keep good relations in the future, we have to buy American auto parts. Even if the cost is a bit high, we may accommodate U.S. suppliers. But not if the parts are of low quality. That is the best we can do under the present circumstances.

Honda CEO Nobuhiko Kawamoto:

The Americans say that their automobiles are as competitive as other makes. This message has not been properly transmitted to the Japanese customers.

DIRCK HALSTEAD

R-R-Recession? Now what?



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Will the Japanese go soft? These young Tokyo skateboarders, at least, just seem to want to have fun.

asks. "No. Does it create more jobs in the U.S.? No. Has there been any revival of American industry as a result? No. What *is* the agreement doing? It is allowing trade negotiators to say, 'See, it's working.' "

Ohmae goes on: "American companies are making money hand over fist because they have guaranteed sales. MITI strongly suggests that individual chip users increase purchases and monitors their performance quarterly. If the companies don't comply, they fear they will be retaliated against when they need something from MITI. So they buy chips and throw them away."

How will the Japanese reach their targets for the purchase of American auto parts? Easy, says Ohmae, "we will buy tires. Bridgestone owns Firestone. Sumitomo Rubber owns Dunlop. Yokohama Rubber owns Mohawk. Thank you very much. So we will simply import tires from the U.S. and mount them on the cars to be exported back to the U.S. Secondly, we will import from 120 Japanese component plants in the U.S."

Still not enough? "We will import completed automobiles. This will be a disappointment to the Big Three. We have 12 auto plants in the U.S. We will import from them. Don't worry. We will buy these American cars, because MITI is determined. MITI is now allocating purchase of these cars among Japanese companies. They are saying, 'Look, you guys export X billion dollars of goods to the U.S., why don't you buy five American cars?' Then they go to another company: 'You are exporting too much to the U.S. Shame. Why don't you buy ten cars?' They are already out knocking on doors."

ONE OF THE BEST things to come out of the Tokyo talks was an agreement for the two governments to cooperate in promoting economic expansion. An increase in U.S. growth of a single percentage point would create nearly a million jobs, swamping anything that could possibly flow from Bush & Co.'s market meddling. Sure, Japan has protected some of its market, but the U.S. trade deficit also owes its existence to other factors: Japan is a nation of producers, the U.S. a nation of consumers; Japan is a nation of savers, the U.S. a nation of spenders. If Americans want to be more competitive in trade, they must cut excessive government spending and promote investment both in human and physical capital. Says Kazuo Nukazawa, managing director of Keidanren, Japan's most influential business organization: "You should go back to Benjamin Franklin; spend less and save more. My father gave me a Benjamin Franklin book as a child. We adopted total quality management. These things came from America. We learned from you. You have to be more American."

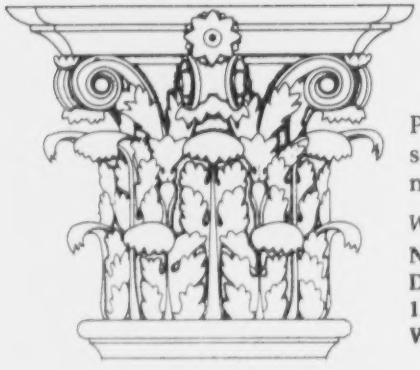
Another possibility is that the Japanese will get soft. Besides pressures for change from the U.S. and Europe, they are feeling strains within their own society. Single-minded pursuit of growth and market

share has come at the expense of employees' time off (Japanese put in 2,100 hours a year, vs. 1,800 in the U.S.). Widows of workers who suffered *karoshi*, or death from overwork, are calling the Karoshi Hot Line and suing employers. The labor pool is tight; Japan is importing workers, at the risk of social unrest, and exporting factories. Investment lags in sewers, housing, roads, parks, and all manner of amenities public and private. The nation cries out for *yutori*, the comfortable life.

ALL THIS has set off debate about the Japanese ethos and the corporation's role in it. Akio Morita, chairman of Sony, writes in the February issue of *Bungei Shunju*, a respected monthly, that he can understand why Western businessmen think the Japanese are "trying to strangle them." The Japanese system has been relentlessly geared to producing ever better products at "unbelievably low" prices. In the process, other values have been slighted, including contributions to shareholders and the community.

Dividend payouts come to just 30% of profits in Japan, vs. 54% in the U.S. and 66% in Britain. Contributions to charity as a percent of profits are less than one-quarter the U.S. rate. These issues, along with the compensation and treatment of workers and care for the environment, Morita writes, ought to be reexamined even if changes lead to more relaxed competition, higher prices for exported products, and less of a fixation on market share. Japan, he went on, should concentrate on becoming a "lifestyle superpower."

To some Japanese, Morita's words seemed shocking, since the Sony chairman has been the hardest of hard drivers, both in and out of Japan. U.S. Ambassador Michael Armacost points out "a practical question" that Morita himself acknowledges: How can hotly competitive Japanese corporations "embrace these ideas simultaneously rather than some doing it at their own competitive disadvantage?" But change is already afoot, notes Nukazawa, the Ben Franklin fan. Young people aren't saving what their parents did. Many companies are going to five-day workweeks, as are some schools. The so-called *shinjinrui*—literally, the new human species—age 20 to 30, seem to be losing some of that old-fashioned work ethic. "The way of all flesh," says Nukazawa. But the decline and fall of Japan, he says with a twinkle in his eye, lags well behind that of the U.S.



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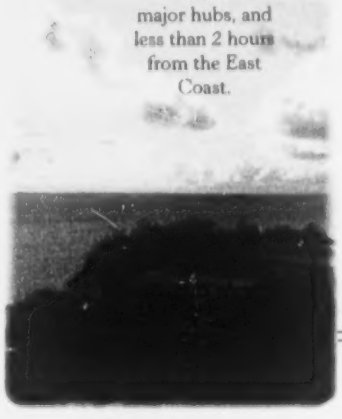

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THE BABY BOOMLET IS FOR REAL

The trend started with women beating the biological clock, but it won't stop with them. More young women are dropping out of full-time work to start families. ■ *by Joseph Spiers*

NOTICED many pregnant women in your office the past few years? Lots of strollers in the local park? It's what number crunchers call anecdotal evidence—you see something that looks like a trend, yet can't "prove" it. Indeed, conventional wisdom, based on Census Bureau forecasts, holds that birthrates will decline.

Now the numbers are starting to document what the eye can see. Babies are back, the rise in the percentage of women entering the labor force has stopped growing, and younger women seem more interested in starting families earlier than their older sisters. The signs all point to a bona fide baby boomlet. Yes, the 1990s really are going to be different.

If the demographers descrying the baby trend are right—and they put up powerful arguments—ten million more small Americans than foreseen by the Census Bureau will be around by the year 2000. That's bad news for those who sell sports cars, run fancy resorts, or operate haute cuisine restaurants: Tomorrow's homebound consumers will have fewer discretionary dollars available for pricey pleasures. For makers of kids' clothes, toys, and the like, there will be opportunities aplenty.

Census Bureau population projections are enormously influential among business and government planners. In its most recent estimate, published in 1989, the bureau predicted 3.7 million births in 1990. Actual result: 4.2 million (see chart), the most since the late baby-boom year of 1961, when 4.3 million children entered the world. And 1989 was pretty boomish too, with four million new citizens.

How could the agency have underestimated so badly when it knew how many American women were in their childbearing years? It looks at something called the total fertility rate—the number of babies a woman would have in her lifetime, given the current year's fertility patterns across age groups. Through most of the 1980s the rate was 1.8, which the bureau used in its projections. On its side: the continuing expansion of women's job opportunities, incomes, aspirations, and independence. What modern woman would want to be tied down by bottles and diapers when she could be doing leveraged buyouts?

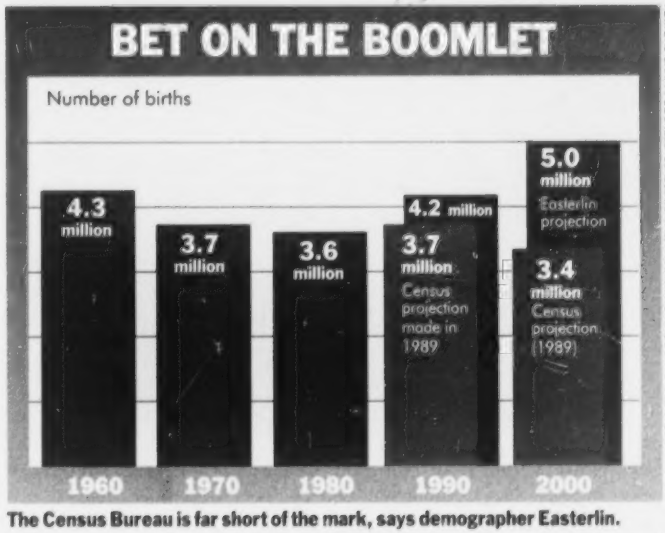
Quite a few, it turned out. In 1990 the fertility rate reached 2.1, and that seemingly small change resulted in the half million extra births. Especially notable: a sharp rise in the birthrate among college-educated managers and professionals over 30, according to biennial census surveys. These are the women who delayed childbearing to pursue careers and are now bent on catching up. Though much attention has been paid to the soaring number of out-of-wedlock births, the more important news for business is in the number of births to married women, which began to rise in 1988 after sinking for two decades. Married couples have both the

Astutely planning on a coming surge of young customers, Texas Instruments has expanded its line of electronic toys.

JOHN MAIER

will and the wallet to treat their babies to the best.

The question now for demographers and marketers: Will the baby buggy soon come to a screeching halt when women who delayed childbearing finish beating the biological clock? After all, the typical baby-boomer today is thirty-something. You might well expect that the educated, ambitious American woman will quickly revert to her ways of the 1970s and early 1980s, and either postpone children or have a baby and go back to work. It's still a staple of establishment thinking that young women will choose to have few children.



The Census Bureau is far short of the mark, says demographer Easterlin.

Not so, asserts Richard Easterlin, demographer at the University of Southern California. Easterlin expects that the fertility rate will rise markedly this decade to as high as 2.7 children per woman—a level the U.S. hasn't seen for a quarter-century. Births fell in 1991, but only because of the recession, he says. Even so, they tallied around four million, vs. the census projection of 3.7 million.

Easterlin has made a career of challenging conventional wisdom. During the 1970s he was forecasting an upsurge in the 1990s. He made that call during the heyday of the Limits to Growth and Zero Population Growth movements, when it was widely agreed that the fertility rate would head down as it had for 100 years, interrupted only by the anomalous baby boom.

What caught Easterlin's eye was not the long-term downward trend but the tremendous swing in birthrates during past decades. Something fundamental had to be at work, he figured—a factor that would influence future cycles. The something turned out to be a couple's income, mostly the husband's, relative to the couple's material aspirations. Those aspirations, in turn, are largely determined by their parents' incomes.

The higher a couple's income relative to their aspirations, Easterlin found, the higher the fertility rate. And income is heavily influenced by the size of the couple's generation: If there are lots of people, they crowd into the labor force, pushing wages down compared with those of their parents' generation. That's what happened to the baby-boomers, and it is why their fertility rate fell below replacement rates in the 1970s and much of the 1980s.

Hold on. Didn't the boomers have it good, weren't they big spenders, didn't they unleash yuppies on society? Sure enough. Their parents' prosperity gave them big aspirations for consuming. But since there were so many of them, they had to pay for their pleasures by putting off marriage and children. Boomer women thronged to the career ladder and climbed with tenacity.

The baby-busters, those born roughly between the mid-Sixties and the early Eighties, are more likely to enjoy good wages because of their smaller numbers. Despite modest economic growth and continuing corporate restructuring, incomes will continue to rise unless the economy of the coming decade turns out far grimmer than seems likely. The gains should be strong enough to push the total fertility rate well above where it is now—especially since several years of weak growth and recession have diminished so many aspirations.

"Most women will work fewer hours, travel less, and take less work home."

Other researchers support Easterlin's thesis. Diane Macunovich, a professor at Williams College, has calculated that wages of young workers relative to their parents' wages five years earlier—when the youngsters were forming expectations—began to rise in 1985. That foreshadowed higher fertility in the late 1980s, with the rate for 20- to 24-year-olds rising to 115.4 births per thousand in 1989 (the latest data available) from 107.3 in 1984. Comparing the number of younger vs. older workers, Macunovich projects continued increases in relative wages for those in their late teens and early 20s through the year 2000, implying higher fertility rates.

Now look at what's been happening to the birthrate among women ages 25 to 29, who were born as the baby boom wound down: Births hit 116.6 per thousand in 1989, compared with 108.3 in 1984. Why? These women are in a less crowded marketplace than their older sisters. And many who've been hearing about how draining it is to have a newborn at 35 or 40 seem to be advancing their plans.

THEN there's the development that probably seems incredible to anyone who's come of age since the mid-1960s. The rise in the percentage of women entering the labor force has stopped. Year in and year out, through recession and expansion, the female labor force participation rate grew from 37.7% in 1960 to over 57% in 1989. But there it has stuck ever since, another example of conventional wisdom confounded. In its most recent long-term forecast, the U.S. Bureau of Labor Statistics predicts the rate will hit 60.1% in 1995 and 62% in 2000. Not likely, says the Easterlin school, because as relative wages of husbands improve in the 1990s, women will work less.

Now he's gone too far, you say. Though Easterlin cites survey data to buttress his point, Macunovich's students at Williams, an elite school that attracts careerists of both sexes, were doubtful. So last year they polled their fellows on childbearing attitudes. They found that 87% of female and 95% of male students expected to have two or more children. Women said they intended to cut weekly work hours from 44 to 18 while taking care of young children.

There's other corroboration. *Parenting* magazine found that 57% of its readers in 1990—average age, 30—planned to have more children, up from 44% in 1987. The percent of full-time homemakers rose to 30% from 26%. Yankelovich Clancy Shulman, a Westport, Connecticut, market re-

REPORTER ASSOCIATE *Joshua Mendes*

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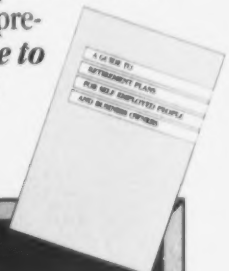

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search firm, found that 28% of working women in 1990 wanted to quit their jobs to put more energy into being mothers and homemakers—nearly double the share in 1981. "In practical terms, most women will still have to work because they need the money, but our research shows they are not as committed to their careers, and so will work fewer hours, travel less, and take less work home," says YCS senior vice president Susan Hayward. "The job must share time with husbands and kids."

MARKETERS should heed the implications. The U.S. Department of Agriculture calculates that a middle-income American family will spend $120,000 in 1990 dollars to raise a child to age 17, before paying for college. *American Baby* magazine projects that, based on trends that began in the 1980s, an increasing number of couples will have a second and third child in the next few years. Larger families spend less per child, but the total dollars build into a mountain.

The USDA also found that though 59% of wives without children work full time, the proportion drops to 31% for wives with a baby and to 18% when other children are also present. Some moms switch to part-time jobs, but after-tax family income still falls 10% to 20% on average. Outlays drop only 6%, but what a difference in the mix. Feeling as if they're spending the entire GDP on diapers, formula, pediatricians, and babysitters, parents won't be much in the mood to shell out $100 for a Broadway show, plus dinner and parking.

Such shifts could upset business plans seemingly based on obvious truths. For example, a marketing report from McKinsey & Co. expresses the widely held view that eating out will claim a significantly greater share of consumer food dollars by the year 2000. The USDA, however, finds that after baby's arrival, such spending plunges 44% while food-at-home outlays rise 29%. Cost-conscious families may think twice about even fast food—sales growth has slowed markedly in recent years.

If you've got any doubt that babies are in and are affecting consumer behavior, just check out your favorite romance novel emporium, where you'll find the likes of *Baby Aboard*. "Carson was in the mood for love, all right—but were Lisa's enticing ways enough to lure him to marriage . . . and a baby carriage?" Hint: On the last page, Carson closes his eyes as he holds her, saying: "A family. Yes. That's a promise." F

WHAT'S POWERING MEXICO'S SUCCESS

First, there's the crackdown on corruption—some business and labor leaders have gone to jail. Then there's the sell-off of state companies. President Salinas means business. ■ *by Nancy J. Perry*

THE NEWS from Mexico sounds too good to be true. The economy is growing at about 4% a year. Inflation has dropped from 160% a year to less than 20%. Tariffs running as high as 100% during the protectionist Eighties are down to 20% tops, and would disappear altogether under the North American Free Trade Agreement now in the works.

Astoundingly, since the mid-1980s more than three-quarters of Mexico's state-owned companies have been privatized. And 81 million consumers have more to spend than they've had in a decade. Makes any red-blooded capitalist want to pack his wares, buy a Spanish dictionary, and set up a little *tienda* south of the border tomorrow morning.

One caveat: Tomorrow morning might be too late. After years of protectionist policies and a decade of nearly terminal recession, aggravated by falling oil prices and rising foreign debt, Mexico under President Carlos Salinas de Gortari is snapping back with an energy and intensity that is startling. Other Mexican leaders have tried in the past to reform the country's ponderous, corruption-ridden economy. But none ever went as far or as fast as Salinas, 43, a Harvard-trained economist who was Budget Minister before being elected President in 1988.

He has been ruthless in restructuring industry. When the bloated steel industry is fully privatized, the work force is anticipated to plunge from 25,000 to around 10,000. The government expects to complete the sale of all state companies by next fall. Salinas pledges that the estimated $4 billion the government will receive will go toward reducing the national debt. He has also been tough on the clubby business community. He has sent some prominent business and labor leaders to jail for corrupt practices and started a campaign against tax evasion.

REPORTER ASSOCIATE *Patricia A. Langan*

MEXICO

1990 figures

Population	81.1 million
Per capita GDP	$2,931
Trade balance	-$3,026 million
Inflation rate	20%
% of population under the age of 40	80%
% of people with a college degree	3%
People per doctor	624
People per telephone	9
People per PC	81

SOURCES: IMF, INT. STATISTICS, MEXICAN EMBASSY, MONTERREY TECH, WORLD ALMANAC, COMPUTER WORLD, WHO

American managers have begun to notice. General Electric Chairman Jack Welch spent a week there last year and promptly moved a top corporate officer into the country. Up to then, GE had run its Mexican businesses from Texas. Says Jeffrey Gannon, the new chairman of GE Mexico: "For companies wanting in, if you wait for the trade agreement to be signed, you'll miss an opportunity."

Most likely, the Bush Administration won't push the trade deal until after next November's election. If the President is reelected, it stands a good chance of enactment. If he loses, all bets are off. Still, confidence among Mexican business leaders is at an all-time high. Says Gustavo de la Serna, 65, a retired IBM executive who runs the Mexican Business Council for International Affairs: "I will mark my 50th anniversary of working next November. I've been directing American companies most of that time. I was never optimistic. At this moment, I am optimistic."

So are a growing number of foreign investors. Economist Rogelio Ramirez de la O reports that $2.6 billion of the country's $9.7 billion in net capital inflows last year came from direct foreign investment in plant and equipment, as opposed to repatriated wealth and investments in stocks and bonds. This year he says that number should reach $3.5 billion.

Who's investing? In recent months Wal-Mart announced a joint venture with Cifra, Mexico's largest retailer, to open wholesale clubs in Mexico City. Nissan plans a $1 billion expansion of its assembly plant in Aguascalientes. And Corning has signed a $300 million strategic alliance with Vitro to sell tableware in Mexico and the U.S. Most recently, Zenith said it would close its manufacturing operations in Taiwan and move more than 600 people to its existing operation in Mexico.

And those are the latecomers. In September, Wisconsin's Kohler Co. fired up the kilns at its new $42 million toilet and sink manufacturing plant near Monterrey. Kohler eventually will produce and export 1.5 million units a year. In the past year Compaq Computer, Lotus Development Corp., and Microsoft opened subsidiaries in Mexico City. Franchises, including McDonald's, Pizza Hut, Baskin-Robbins, and Athlete's Foot, are spreading faster than bad Wall Street jokes. The resulting need for help is a business consultant's dream: Price Waterhouse in Monterrey is getting so many inquiries from U.S. companies curious about doing business in Mexico that it will set up a unit just to answer their questions.

continued

The lure is obvious: Mexico is loaded with import-hungry consumers. In 1990 capital goods imports rose more than 40%, to $6.8 billion. IBM expects computer industry sales in Mexico to grow 400% by the year 2000. Car purchases passed their 1981 peak for the first time in 1991. The country also has low-cost labor and abundant raw materials, including oil and various minerals.

But the country's biggest selling point is something else. Mexicans call it *ganas*, or desire. Spend two weeks in industrial centers such as Monterrey and Mexico City, and you'll bury forever the image of the lazy Mexican snoozing under a cactus. People are working 12-hour days. Says Juan Gallardo, who heads a group of 200 Mexican business executives who are advising the government on the Free Trade Agreement: "Our competitive juices have started flowing." In one particularly industrious endeavor, a nonprofit organization in Monterrey called Proexport has set up a team that is analyzing all the companies on the FORTUNE 500 in order to determine whether manufacturing or selling in Mexico makes sense for them. The message is clear: Mexico means business.

This is not to say that setting up shop south of the border is a bowl of tortillas. Warns Jorge Lankenau, chairman of Abaco, a large brokerage firm: "In the U.S. everything is permitted unless it is prohibited. Here everything is prohibited unless it is permitted." The country is still a good-news, bad-news situation. But the bad news is waning, and the good news is spreading. For instance:

■ **LABOR QUALITY.** The average Mexican has only a sixth-grade education, and just 3% of the people have college degrees. But if properly recruited, trained, and motivated, Mexican workers can be as productive as their U.S. counterparts. Top executives at IBM, Ford, Procter & Gamble, A.O. Smith, Kohler, GE, and Caterpillar all rave about the quality of their work forces in Mexico. An MIT study in 1990 named Ford's Mercury Tracer plant in Hermosillo the highest-quality assembly plant in the world. The head of IBM Mexico, Rodrigo Guerra, reports that "for every dollar you pay a Mexican engineer, you get more from him or her than you'd get in other societies around the world." *continued*

GE says the gas ranges it makes at its Mexican joint venture are as good as any in the world.

PHOTOGRAPHS BY SERGIO DORANTES—SYGMA

Wages are rising, and consumers, like this woman in Mexico City, are looking for quality goods.

■ **LABOR COST.** Though wage rates remain well below those of the U.S., they are rising fast in part because of high demand for workers. Says Nicholas Scheele, who has been Ford's Mexico manager for the past three years: "We didn't come here for low wages. From Ford's perspective, Mexico's biggest benefit is its exploding domestic demand." Management salaries are as high as or higher than in the U.S., largely because demand outstrips supply.

■ **INFRASTRUCTURE.** Spend time in Mexico and you'll never complain about AT&T again. Economist Rogelio Ramirez reports that his home phone was broken for three months before a repairman showed up. Busy circuits and sudden disconnections are common. The mail is worse: Until recently, anything ordered from a catalogue had a good chance of being stolen before delivery. (Federal Express has given mail order new life.) Ports and railroads? How's your sense of humor?

But conditions are improving rapidly. Since being privatized in 1990, Teléfonos de México has begun a huge modernization program. Cellular phones and fax machines abound. When it comes to building highways, the U.S. could take a lesson from Mexico, which has turned the job over to private companies. Most new roads are toll roads. The builders agree to turn the roads over to the government after collecting tolls long enough to recoup their investment plus a reasonable profit.

■ **CONSUMER MARKET.** Average per capita income is only $2,931—not exactly enough to support a mass market for most products. Despite rising wages, inflation has cut purchasing power of ordinary Mexicans by at least a third since 1980. But price increases have slowed, thanks in part to cheaper imports as a result of tariff cuts. And the wage increases that will accompany Mexico's economic growth will help too. Jeff Gannon says that pay at GE Mexico grew about 25% in 1991.

That's helpful, because pent-up demand for quality goods and services is huge—one reason that companies such as P&G, Colgate, and Kimberly Clark stuck it out in Mexico during the miserable money-losing Eighties. There is also a thriving underground economy—a mob of plumbers, shopkeepers, and entrepreneurs who happily use the money they save not paying taxes to buy cars and Crest. Says Claude Salomon, president of P&G's Mexican operation: "The huge growth of the underground economy has been more important than anything else in creating the beginning of a middle class."

What does Mexico need most? Anything, it seems, that begins with a C: corn, capital goods, cars, cosmetics, computers, components, consultants, construction equipment, canned goods, clothes, cable TV, and cellular phones. But what sells in the U.S. might not sell in Mexico. P&G, which has been marketing there since 1948, produces sudsier laundry detergents that make washing clothes by hand easier. And Mexican consumers have become far more selective and quality conscious than they were ten years ago, when they had fewer options. Says Gannon: "In the past, what sold was the cheapest product. Now the people want quality, warranties, and local service."

As a result, companies that previously sold through agents or dealers are opening sales subsidiaries and warehouses in Mexico to provide both technical and moral support to their customers. Says Manuel Parra, vice president of Compaq Latin America: "Customers in Mexico are more loyal than in the U.S., so you have to spend a great deal of time understanding their needs and showing that you are interested in a long-term relationship." Compaq opened its first Latin American subsidiary in Mexico City in June and expects sales of personal computers in 1991 to be double what they were the year before.

ALTHOUGH nearly three-quarters of Mexico's economy is now open to 100% foreign ownership, rules vary greatly by industry. Railway transportation, mineral extraction, and everything having to do with petroleum are still closed and are likely to stay that way for some time. Best advice: Hire a lawyer, or contact Jaime Alatorre, president of the Mexican Investment Board in Mexico City, whose staff can direct you to the right government agency, give you information on regulations, and introduce you to a banker.

For companies wanting to manufacture in Mexico, besides setting up a wholly owned Mexican subsidiary, there are three main approaches: the *maquiladora*, the so-called shelter operation, and the joint venture. The *maquiladora* program, created by the Mexican government in 1965 to generate jobs and revenue, works best for companies aiming to export most of their goods back to the U.S. It allows manufacturing, assembly, or processing plants—known as *maquiladoras*—to import materials, components, and equipment duty-free; in return they use Mexican labor. When the completed product is exported to the U.S.,

the *maquiladora* pays duty only on the value added in Mexico.

Maquiladoras now can sell up to one-third of their output in Mexico—instead of exporting all of it—and they are no longer confined to border areas. Nor are they the sweatshops that many once were. Some are gleaming, high-tech showcases employing the latest management techniques. At A.O. Smith's electric motor plant, for instance, teams of production workers operate unsupervised, making their own decisions and recording results hourly on the number of defect-free motors and rejects they have produced. At the end of each shift, employees meet to discuss results, quality problems, scrap costs, and how to do better in the future. So far, turnover and absenteeism are less than 2% per month—better than at many of the company's U.S. plants.

SHELTER OPERATIONS are the choice for companies that want the advantages of manufacturing in Mexico without the risk. Shelter operators are independent contractors who for a fee will take care of the costly and time-consuming administrative aspects of starting a foreign manufacturing venture, such as site selection, labor negotiations, personnel recruitment, and nontechnical training.

Initially, the shelter operator owns the factory and bears most of the startup costs. After a period of time agreed upon in the initial agreement, the U.S. company can buy out the shelter operator at a preset price and continue running the business.

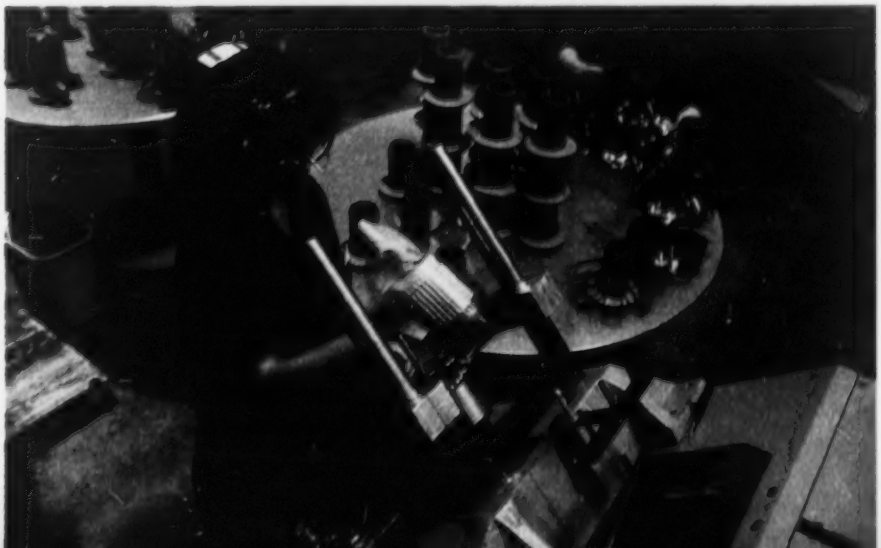
A joint venture is the best approach for U.S. companies planning to manufacture mainly for the Mexican market. Such a venture provides the comfort of having a local partner who knows the territory. For example, Alfa Industrial Group takes in about half of its $2.2 billion in annual revenues with foreign partners such as Ford, Du Pont, and Stone Container.

GE's Jeff Gannon notes that in "one of the best successes we've had anywhere," GE formed a joint venture in 1988 with MABE, one of Mexico's largest appliance manufacturers. The following year the two companies opened a gas range plant in San Luis Potosí. This year it will turn out 800,000 units—"the best gas range going"—to be sold in the U.S., Canada, and Mexico.

John Pfeffer, who worked in Mexico for Caterpillar from 1969 to 1972 and returned last July as managing director of its Conek plant, is amazed at what a difference two decades has made. "The ease of doing business has changed dramatically," he says. "People want to help you now. It's absolutely incredible."

To cash in on this kinder, gentler Mexico, the best advice is to keep an open mind. Don't assume anything will work—or won't work. Take the case of Pace Foods. In 1990, Pace went to Mexico City to film three commercials for Pace Picante Sauce, which it sells in Texas. One ad featured a supermarket end-aisle display stacked with jars of Pace's hot sauce. Upon returning to San Antonio, the crew left all the jars behind, telling the store manager to go ahead and sell them if he could. A few weeks later, Pace got a phone call from Mexico City. "I've sold all 350 jars," said the manager of the supermarket. "What do I do now?" Pace now has a hot new business—selling salsa in Mexico.

At this A.O. Smith electric motor plant near Monterrey, teams of workers make their own decisions.



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THE BIG DRIVE TO REDUCE DEBT

With credit tight and bond ratings in the tank, companies are pursuing new strategies to deleverage. But good luck selling assets—unless an overseas buyer turns up. ■ *by Anne B. Fisher*

SUMNER REDSTONE doesn't mince words. In 1987 the CEO of National Amusements acquired Viacom—which includes Nickelodeon and MTV—and piled debt of nearly $3 billion onto it. Everyone who works for Redstone, and lots of people who don't, know what he wants now: Get Viacom's debt down—way down—or else. At a recent junk bond conference in Greenwich, Connecticut, Redstone told several hundred Wall Street analysts, institutional investors, and executives from other companies that had issued high-yield bonds: "This is the last conference of this kind that you will see us attending. And if you do see us again next year, we'll have a new chief financial officer."

Although he's more outspoken than most, Redstone, 68, isn't alone. You may as well get used to the rather ungainly verb "deleverage," since we'll all be reading and hearing it for years to come. Consider the findings of Indepth Data, an investment research firm in Oklahoma City: In 1986, in the midst of the takeover and LBO frenzy, all of corporate America took a mere $2.2 billion in debt off its books by way of exchange offers, tender offers, and redemptions. In 1991, as of early December, the figure was $11.2 billion—including about $3.4 billion that was "vaporized," in financial analysts' Star-Trekkish lingo, by bankruptcies (see chart).

Companies have plenty of incentives to get rid of the costly debt they shouldered in the Eighties. Credit—the lifeblood of any business, and all the more so for a growing company—is harder to come by now that bankers have turned tightwad. The lower the ratio of debt to equity, the easier it is to refinance bank debt, borrow in the commercial paper markets, and maybe even get an upgrade from the bond-rating agencies. "Companies aren't rushing to get rid of debt because they suddenly woke up and got religion," observes Louis Lowenstein, a professor of finance and law at Columbia University. "It's because deleveraging is now inevitable. There's simply no choice anymore."

Deleveraging takes many forms—some familiar, some less so. Falling interest rates have inspired a stampede by corporate financial managers to restructure their balance sheets by swapping high-cost debt for cheaper obligations. Issuing stock is suddenly wildly popular, although it doesn't carry with it the tax deduction for interest payments that borrowing offers. Private placements and other innovative tactics that bring debt-free cash infusions are in vogue too. Some companies have tried, with varying degrees of success, to raise money for debt reduction by selling assets. The most common strategy now is a combination of maneuvers: Issue new equity, retire pricey old bonds and maybe float some new ones at a lower rate, and unload some assets if you can.

In this, George S. Smith Jr., 43, Viacom's chief financial officer for the past four years, is fairly typical—and Redstone seems likely to let him keep his job. Between 1987 and 1990, Viacom sold assets and paid off $600 million in costly bank debt. It then extended the maturities on some notes from 1991 to 1998, issued $200 million in senior subordinated debentures at a relatively comfortable 10.25%, and retired all of its 15.5% bonds. The ever lighter interest burden has let Viacom keep investing in its fastest-growing businesses. Last August, for instance, the company parted with 2.2 million shares of common stock to snatch MTV Europe from the late Robert Maxwell's sinking ship. As a result, Viacom is now so healthy that some analysts think it could be a prime candidate for acquisition if Redstone, who still owns about 75% of the stock, ever agrees to give it up.

As Lowenstein argues, the urge to deleverage, however laudable, is rarely voluntary. In 1989, federal bank regulators started pressuring commercial banks and savings and loans to stop lending to companies whose bonds had fallen below investment grade because their balance sheets showed high debt-to-equity ratios. The leverage-happy Eighties left only about 400 corporations' bonds in the investment-grade category, and the so-called HLT (for highly leveraged transaction) list of the bank watchdogs now blackballs most U.S. companies. Nearly 95% of those with annual sales of more than $35 million are in the junk bond brigade.

George Smith has been paying down Viacom's $3 billion in IOUs.

No wonder, then, that net new bank loans to nonfinancial companies dropped through the floor, from $33.1 billion in 1989 to just $2 billion a year later. "The federal government, when it acts with a blunt instrument, can make a bad situation worse," says Karl von der Heyden, who ought to know. As chief financial officer of RJR Nabisco, von der Heyden, 55, has been steadily wrestling down the $29 billion in debt the company took on in its 1989 leveraged buyout. Much to bankers' and borrowers' dismay, the feds' HLT definitions ignore cash flow—more technically known as Ebitda (earnings before interest, taxes, depreciation, and amortization). "A lot of companies, including our own, got caught in this web even though our cash flow is very strong," von der Heyden complains. "A bunch of arbitrary balance sheet ratios have replaced what should be sound credit analysis, and these rules have aggravated the credit shortage."

His situation looks cheerier now. Asset sales of $5.5 billion, a cash infusion from controlling shareholder Kohlberg Kravis Roberts, and the proceeds from a series of huge common and preferred stock issues pushed RJR's total debt down to $14 billion by December 1991. Acknowledging von der Heyden's deleveraging drive, both Moody's and Standard & Poor's elevated RJR bonds to the nonjunk elite. That helped bump the company off the infamous HLT list. RJR has negotiated a new $6.5 billion line of credit with 60 banks at about 5%, two percentage points less than it had been paying. Von der Heyden predicts that interest expense will fall at least $270 million a year.

Here's a closer look at deleveraging strategies for the debtlorn:

■ **Issue equity.** RJR, Viacom, and hundreds of other companies have been aided in the war on leverage by two fabulous strokes of luck: tumbling interest rates, which steer investors away from T-bills and CDs, and the resulting bull market in stocks. Issues of new equity hit a record $61 billion as of December 1991, sailing past the previous high of $57 billion in 1986.

So attractive and forgiving has the stock market become that many companies are trying to use it as a lender of last resort. General Nutrition Corp., the Pittsburgh-based vitamin and health food retailer, was saddled with $62 million in increasing-rate notes paying nearly 19% after it went private in 1989. The original plan was to retire those notes quickly, using lower-cost bank credit, but General Nutrition ran smack into the HLT ceiling and couldn't borrow a dime. Last summer the company filed a $100 million debt offering with the Securities and Exchange Commission, then let it languish after investment bankers sold management on an equity offering instead. "We were planning to pay off the most oppressive debt with cheaper debt," says Robert Dunn, a senior vice president. "But equity is the best money to get."

Some companies have taken advantage of hybrid issues that bring the tax benefits of debt at far lower cost. Last November Eastman Kodak sold $975 million worth of limited-yield option notes, or LYONs—zero-coupon bonds that are convertible to

PETER CARLSON

The dean of deleveraging: RJR Nabisco's CFO Karl von der Heyden has sliced $29 billion of debt in half.

common stock. Kodak makes no payments now—it shells out 6.75% annual interest when holders convert to common, say, or when the bonds mature in 20 years. But the company can write the interest off its taxes each year in the meantime. At first the Internal Revenue Service looked askance at the idea but then wrote a policy letter agreeing to leave it alone for now. Paul Smith, 56, Kodak's senior vice president for finance, is using the proceeds to pay down higher-priced debt. "We did this for three reasons," says Smith. "Cash flow, cash flow, and cash flow."

PETER GREGOIRE

Paul Smith of Kodak's concern: "Cash flow, cash flow, cash flow."

■ **Take all or part of a subsidiary public.** Want to pay down debt by selling assets? Can't find a buyer? Not to worry. With any luck at all you can take a division or subsidiary public, and maybe even get a better price for the stock than you could from an acquirer. National Intergroup, the conglomerate that used to be National Steel, has taken this tack more than once. A nasty proxy fight with an investor group ended in September 1990 with a new board of directors. They decided to liquidate the whole company, selling off the grab bag of businesses that National Intergroup had acquired in the Eighties. The largest was a $3-billion-a-year wholesale drug distributor called FoxMeyer, in Carrollton, Texas. FoxMeyer was on the block for several months, but nobody offered National a price the directors could live with.

So last summer FoxMeyer issued 10.3 million shares of common stock and forked over the $106 million net proceeds to National, which still owns 67% of the company. National used the money to pay down most of its long-term debt. National has now decided to stick with FoxMeyer, which accounts for about 90% of National's total sales. The other 10% comes from a chain of variety and craft stores called Ben Franklin. National wanted to sell that too, but couldn't entice any takers. In November the parent company filed a new stock registration with the SEC to take part of Ben Franklin public.

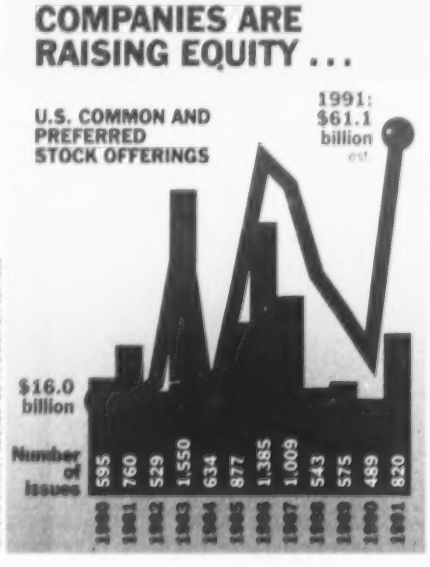
Selling off a subsidiary to new public shareholders doesn't always work. Unisys Corp. tried for at least a year to unload a defense electronics division now called Paramax, hoping to use the money to pay down debt. But with the Cold War fading into history, no suitors materialized. In September, Unisys and Lehman Brothers, the lead underwriter, announced a plan to take Paramax public and sell 20 million shares at $22 to $25 apiece. Unisys expected to reap $332 million in cash.

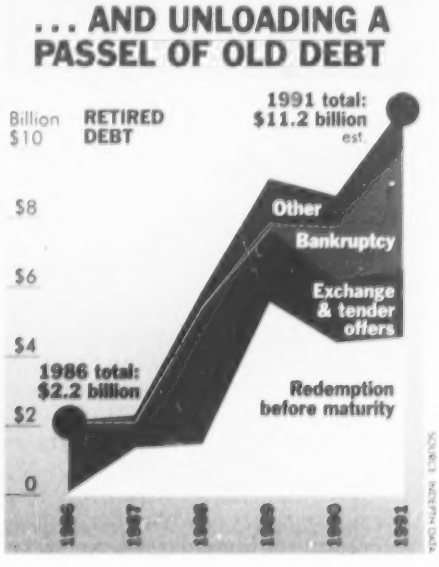
It was not to be. Wall Street greeted the idea of another defense stock with boos and hisses. Unisys recognized that nobody was going to pay anywhere near $22 and withdrew the offering. Unisys Chairman James Unruh said that getting rid of Paramax at "fire sale prices" would not serve the interests of Unisys shareholders. Observes an investment banker at Morgan Stanley, who asked not to be named: "You can take almost anything public at *some* price. But a dog is still a dog."

■ **Sell assets.** Companies that are determined to deleverage by selling assets can still do so, as McDonnell Douglas demonstrated a couple of months ago when it announced it would sell a portion of its commercial aircraft division to Taiwan Aerospace. McDonnell aims to use the huge cash infusion from the deal to slash its existing debt of $2.7 billion, which is 42% of its capital.

Like the aircraft maker, other would-be asset peddlers may find they have to go overseas to find acquirers with deep pockets. Carl Ferenbach, a partner in the Berkshire Partners LBO firm in Boston, says today's U.S. buyers are now paying barely 60% of what the same assets would have fetched in the late Eighties. Notes Richard Jenrette, 62, chairman of Equitable Life: "In this economic climate you have to comb the world to find financial flexibility. To paraphrase Blanche DuBois, many companies are now depending on the kindness of strangers." His is one of them. Last July, as part of an effort to cut long-term debt in half, Equitable sold a 40% stake to French insurer Groupe Axa for $1 billion.

AMI, a for-profit hospital chain based in Dallas, went on a $1 billion worldwide selling spree to pay off debt from its 1989 leveraged buyout. The company divested itself of four hospitals in Switzerland and one each in Greece, Spain, and Singapore. The average price in those deals was more than six times the yearly cash flow from the hospitals. At the same time, AMI sold five psychiatric hospitals in the U.S. for about





four times their cash flow. "We got much better prices internationally than we expected," says Wendy Simpson, 42, the chief financial officer. "It made up for the shortfall in prices here at home." In Spain, exchange rates moved in AMI's favor, too, Simpson adds: "Between the time we sold that hospital and the day we actually got our money out, we made an extra $1 million."

The feverish assault on leverage may be slowing down economic recovery.

W.R. Grace, the $7-billion-a-year conglomerate headquartered in Boca Raton, Florida, considered issuing stock and using some of the proceeds to retire debt but decided to sell assets instead—$1.5 billion worth by the end of 1992. "For a company that's already publicly held, issuing more stock isn't magic," says J. P. Bolduc, 52, Grace's president and chief operating officer. "Your shareholders suffer dilution, and then—unless you have a terrific acquisition in mind—you're sitting there with cash on your books and the Wall Street guys start telling you to buy in your own stock."

Bolduc doesn't ever want to do that. His boss, Chairman J. Peter Grace, has often said companies that buy in their own stock are signally ill-managed. Analysts think Grace can get decent prices for the odd assortment of businesses it has put up for sale, which include oil-drilling Grace Energy, a Caribbean fertilizer operation, and a manufacturer of organic chemicals. In 1991 the company sold three businesses to bidders from the Netherlands, Germany, and Norway for a total of more than $250 million. Future acquirers may be foreign too.

■ **Dream up a new kind of deal.** The quest for fresh capital invariably yields some innovative schemes. Debt-strapped Weirton Steel of West Virginia scraped up enough cash to complete badly needed modernization of a hot strip mill through a deal with one of its suppliers, the iron ore and pellet producer Cleveland-Cliffs. Cleveland came to Weirton last summer to ask whether the employee-owned company would like to sign a long-term purchasing agreement. Weirton's answer: Yes, if you'll buy a stake in us.

Cleveland ended up taking 500,000 shares of a new Series B preferred stock issue for $25 million, which relieves Weirton of having to issue any new debt. In exchange, Weirton agreed to purchase a minimum of a million tons of ore and pellets annually from Cleveland for the next 12 years—something the steel company might have done anyway. "Even in a weak year we use at least a million tons, and Cleveland's prices are competitive," says a Weirton manager. "So it was a win-win deal."

■ **Try a sale-leaseback agreement.** A similar harmonic convergence occurred last June between IBM and Zale Corp., the largest U.S. jewelry retailer, which has been staggering under a $1 billion debt load from its 1986 LBO and may yet land in bankruptcy court. IBM had just launched its Integrated Systems Solutions Corp. (ISSC), a subsidiary created to provide data-processing services to companies that want to outsource their computer operations (FORTUNE, September 23). ISSC hoped to expand its potentially juicy business of selling data-processing help to retailers. Zale sorely needed a shot of cash; it is in default on its bank loans and plans to close about 400 stores nationwide.

So ISSC bought Zale's huge data-processing center for an undisclosed price and signed a ten-year contract to lease computer services back to Zale at a discount. "This has not been a good market to sell assets in," notes Andreas Ludwig, 33, a director and assistant to the chairman at Zale. "So we did the next best thing: a sale-leaseback agreement that was structured, for our balance sheet purposes, like an outright asset sale."

■ **Consider a private placement.** The number of these arrangements, wherein a limited number of wealthy investors pump cash into a company in exchange for part ownership, doubled from 1990 to 1991, according to IDD Information Services. Last year about $13 billion changed hands this way. Ken Miller, 49, a former chief of mergers and acquisitions at Merrill Lynch, now runs Lodestar Group, a small New York City merchant bank that has taken minority positions in several highly leveraged companies through private placements. Says Miller: "If takeovers were the deal of choice in the Eighties, private placements are more typical of the early Nineties."

That's so for three reasons. First, selling a whole business may not be practical with acquisition capital so tight and U.S. buyers so leery. Second, since minority owners rarely demand much control over day-to-day operations, managers get the best of both worlds: a hefty helping of equity and no hassles. Third, and in sharpest contrast to a public equity offering, a private placement requires no SEC filings.

That difference can be criti-

An IBM sale-leaseback has Andreas Ludwig of troubled Zale Corp. smiling.

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cal. Suppose you're at the limit of your bank credit but you want capital to make an important strategic acquisition and you haven't got much time if you're to outbid a richer rival. An SEC filing for a public offering would in effect oblige you to freeze your business, making no material changes of any kind, for at least 60 days.

Here private placements can ride to the rescue. In early November the 1818 Fund, a merchant banking arm of Brown Brothers Harriman, put together a $40 million package for Western Gas Resources, a small Colorado natural gas company that wanted to buy a subsidiary of the much larger Union Texas Petroleum Holdings. The deal vastly increased Western's market share and profitability in one fell swoop. In return, the fund's 13 investors got 8% of the new, more robust enterprise. "A public offering would have been much too slow, and satisfying the SEC's disclosure rules would have been impossible because Western was in the process of radically changing the company," says Lawrence Tucker, 49, a Brown Brothers partner.

AS LONG AS BANKS have to obey the HLT regulations, the stock market keeps booming, and interest rates keep sliding downward, leverage-laden companies will continue finding ways to beef up the equity on their balance sheets and kiss their creditors goodbye. Refreshing as that may be after the debt orgy of the past ten years, it's not entirely for the good. The feverish assault on leverage, made necessary by bank regulators, may be slowing down economic recovery. The hundreds of billions raised recently in stock and bond offerings and devoted to paying down old loans are hundreds of billions not being spent on new projects that could create jobs and jumpstart economic growth.

Deleveraging can go only so far. The equity that vanished from balance sheets of U.S. companies in the Eighties may never be entirely replaced. Between 1980 and 1990, $640 billion was converted, one way or another, from equity into debt. In order to restore equity to its former level, companies would have to keep issuing new stock at their record 1991 pace for the next 17 years. Seems unlikely, doesn't it? No matter how hard they try to banish the ghosts of Eighties excess, plenty of companies will be saddled with costly old liabilities for a long time to come. F

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